



This Question Paper is copyrighted property of AIR1CA Career Institute. Sharing and Circulating it without permission is punishable offence.

CA FINAL (May 2026)
GROUP II - PAPER 4
DIRECT TAX LAWS & INTERNATIONAL TAXATION
(Series 4)

Time Allowed: - 3 Hours

Maximum Marks: 100

This question paper comprises two parts, Part I and Part II.
Part I comprises MCQ & Part II comprises questions which require descriptive answers.
All questions relate to A.Y. 2026-27 unless stated otherwise in the question.

PART - I (MCQs)
All MCQs are compulsory

Question no. 1-15 carry 2 marks each

Case Study 1

Mr. Jonny (person of Indian origin) whose age is 68 years returned to India on 2nd October, 2025 at 12:00 A.M. for permanently residing in India after a stay of about 10 years in U.S., provides the sources of his various income and seeks your opinion to know about his liability to income tax thereon in India in assessment year 2026-27. He is also resident of US in Previous Year 2025-26 as per US Tax Law. Assume there is no double taxation avoidance agreement between India and US. Also assume that Mr. Jonny has exercised the option to opt out of the default tax regime u/s 115BAC. Details of Income earned by Mr. Jonny in Previous Year 2025-26 is as under:

	Particulars	₹
(a)	Profits from a business in Ranchi managed from US	1,23,000
(b)	Income from property in US received there	36,000
(c)	Income from agricultural land in Nepal received there and remitted to India later on.	33,500
(d)	Interest on debentures in an Indian company received in US	6,200
(e)	Income from profession in US which was set up in Patna, received there.	42,000
(f)	Profits earned from business in US which is controlled from Jamshedpur, 25% of the profits being received in Jamshedpur	80,000
(g)	Fees for technical services rendered in Patna (connected with PE in India) but received in US	1,25,000
(h)	Untaxed Income from US of earlier years brought to India	15,500
(i)	Dividend from a US company received in US	14,000
(j)	Interest on development bonds issued in US, 40% of interest received in Patna	20,000

In the light of above facts, you are required to answer the following:

1. What would be the residential status of Mr. Jonny in A.Y. 2026-27 -

- (a) Resident and Ordinary Resident
- (b) Resident but Not Ordinary Resident

- (c) Non-Resident
(d) Non-Resident Indian
2. **Compute Total Income of Mr. Jonny for the A.Y. 2026-27 -**
- (a) ₹ 4,79,700
(b) ₹ 3,84,200
(c) ₹ 2,82,200
(d) ₹ 2,97,700
3. **Compute the relief available to Mr. Jonny for the A.Y. 2026-27 u/s 91 -**
- (a) ₹ 4,378
(b) Nil
(c) ₹ 1,674
(d) ₹ 9,344
4. **Fees for technical service earned by Mr. Jonny in India is taxable at ____ rate in A.Y. 2026-27 -**
- (a) 10%
(b) 20%
(c) Slab Rate
(d) Not Taxable
5. **Assume there is Double Taxation Avoidance Agreement between India and US, then as per Article 4 of DTAA, Mr. Jonny will be treated as Resident of which country in A.Y. 2026-27 -**
- (a) US
(b) India
(c) Both US and India
(d) Neither India nor US

Case Study 2

M/s. MNO is a firm liable to tax@30%. The following are the particulars furnished by the firm:

	Particulars of total income	₹
(1)	As per the return of income furnished u/s 139(1)	40,00,000
(2)	Determined under section 143(1)(a)	50,00,000
(3)	Assessed under section 143(3)	65,00,000
(4)	Reassessed under section 147	85,00,000

Mr. N, a resident individual of the age of 58 years and a partner of the above firm, has not furnished his return of income for A.Y.2026-27. However, his total income assessed in respect of such year under section 144 is ₹ 15 lakh. (Ignore Section 115BAC)

You are required to answer the following:

6. **M/s. MNO is deemed to have under-reported its income since its:**
- (1) **income determined u/s 143(1)(a) exceeds its income declared as per return of income furnished u/s 139(1)**

(2) income assessed u/s 143(3) exceeds its income determined u/s 143(1)(a)

(3) income reassessed u/s 147 exceeds its income assessed u/s 143(3)

The correct answer is -

- (a) (1) and (2) above
- (b) (1) and (3) above
- (c) (2) and (3) above
- (d) (1), (2) and (3) above

7. Mr. N is deemed to have under-reported his income since:

(1) He is a partner of a firm which has under-reported its income

(2) He has not filed his return of income

(3) His assessed income exceeds the maximum amount not chargeable to tax

The correct answer is -

- (a) (1) and (2) above
- (b) (1) and (3) above
- (c) (2) and (3) above
- (d) (1), (2) and (3) above

8. Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies u/s 270A(6), penalty leviable on M/s. MNO u/s 270A at the time of assessment would be:

- (a) ₹ 3,12,000
- (b) ₹ 1,56,000
- (c) ₹ 4,68,000
- (d) ₹ 2,34,000

9. Assuming that the underreporting of income is on account of misreporting, penalty leviable on M/s. MNO under section 270A at the time of reassessment would be:

- (a) ₹ 3,12,000
- (b) ₹ 2,34,000
- (c) ₹ 12,48,000
- (d) ₹ 6,24,000

10. Assuming that the under-reporting of income is not on account of misreporting, the under-reported income of Mr. N and penalty leviable on Mr. N u/s 270A would be:

- (a) Under-reported income ₹ 15,00,000; penalty ₹ 2,34,000
- (b) Under-reported income ₹ 12,50,000; penalty ₹ 97,500
- (c) Under-reported income ₹ 15,00,000; penalty ₹ 1,36,500
- (d) Under-reported income ₹ 12,50,000; penalty ₹ 1,36,500

Case Study 3

Ganga LLP is a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for manufacture of textiles. The unit fulfills all the conditions under section 10AA of the Income-tax Act, 1961. During the financial year 2024-25, it has also set up a warehousing facility in

Pune for storage of sugar, fulfilling the conditions for claim of deduction under section 35AD. Capital expenditure in respect of warehouse amounted to Rs. 97 lakhs (including cost of land Rs. 32 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of Rs. 97 lakhs was capitalized in the books on that date.

The details for the financial year 2025-26 are given hereunder:

Particulars	Rs.
Profit of unit located in SEZ	60,00,000
Export sales of above unit received in India in convertible foreign exchange on or before 30.9.2026	1,20,00,000
Domestic sales of above unit	40,00,000
Profit from operation of warehousing facility (before considering deduction under section 35AD)	1,60,00,000

Mr. Ganesh, one of the partners of the LLP, commenced the business of manufacture of leather on 1.4.2024. His turnover in the P.Y.2024-25 is Rs. 180 lakh and in the P.Y.2025-26 is Rs. 200 lakhs. The payments made in the P.Y.2025-26 is Rs. 190 lakhs. The profit for P.Y.2025-26 as per books of account maintained u/s 44AA is Rs. 12.10 lakhs. Out of the turnover of Rs. 200 lakhs, Rs. 190 lakhs is received through RTGS and NEFT and Rs. 10 lakhs is received by way of cash. Out of the payments of Rs. 190 lakhs made (including expenditure incurred), Rs. 180 lakhs is through RTGS/ NEFT and the remaining Rs. 10 lakhs through cash.

You are required to answer the following:

- 11. What is the amount of deduction under section 10AA and 35AD available to Ganga LLP while computing income under the regular provisions of the Income-tax Act, 1961 for A.Y.2026-27?**
 - A. Rs. 45 lakhs and Rs. 65 lakhs, respectively
 - B. Rs. 22.50 lakhs and Rs. 65 lakhs, respectively
 - C. Rs. 45 lakhs and Rs. 97 lakhs, respectively
 - D. Rs. 22.50 lakhs and Rs. 97 lakhs, respectively
- 12. What is the tax liability of Ganga LLP computed under the regular provisions of the Income-tax Act, 1961 for A.Y.2026-27?**
 - A. Rs. 38,43,840
 - B. Rs. 31,70,000
 - C. Rs. 46,30,080
 - D. Rs. 19,65,600
- 13. What the alternate minimum tax (rounded off) payable by Ganga LLP as per section 115JC for A.Y.2026-27?**
 - A. Rs. 39,49,750
 - B. Rs. 41,07,740
 - C. Rs. 43,95,280
 - D. Rs. 46,00,670
- 14. Is there any AMT credit to be carried forward under section 115JEE? If so, what is the amount of such credit?**
 - A. Yes; Rs. 5,22,340

- B. Yes; Rs. 7,56,830
 - C. Yes; Rs.2,63,900
 - D. No
- 15. What is the income to be declared by Mr. Ganesh for A.Y.2026-27 under the head "Profits and gains of business or profession", so that he makes maximum tax savings without getting his books of account audited?**
- A. Rs. 12 lakhs
 - B. Rs. 12.10 lakhs
 - C. Rs. 12.20 lakhs
 - D. Rs. 16 lakhs

PART - II (Descriptive Questions)

This part comprises 6 questions. Question No. 1 is compulsory. Attempt any 4 questions out of the remaining 5 questions.

Question 1

(14 Marks)

The net profit of Rainbow Ltd. as per its statement of profit and loss for the year ended 31.03.2026 amounted to ₹ 27,22,000 after debiting/crediting following items:

- (i) Payment of interest on money borrowed from bank for purchase of land ₹ 2,00,000. The land was meant for construction of a factory building and for which the approval from local authority is pending till 31.03.2026.
- (ii) Commission of ₹ 1,00,000 paid in the month of February, 2026 on which tax was deducted in February, 2026 itself. Commission of ₹ 1,25,000 paid in the month of March, 2026 on which tax was deducted in May, 2026. Tax deducted at source on these payments was deposited to the Government on 28.09.2026.
- (iii) Travelling expenses of ₹ 90,000 on a foreign tour of a director for negotiating collaboration with a foreign manufacturer for initiation of new line of business.
- (iv) As part of the restructuring of its debt, the company has converted arrears of interest of ₹ 3,00,000 on term loan into a new term loan with a revised repayment schedule. The company has paid ₹ 50,000 towards such funded interest during the year. ₹ 3,00,000 is debited to statement of profit and loss.
- (v) On EPABX and mobile phones (exclusively used for business purpose) purchased during the year, depreciation amounting to ₹ 18 lakhs was claimed at 40% treating them as computers.
- (vi) ₹ 5,00,000, being contribution to S Ltd. (wholly owned subsidiary company) for construction of a school for the benefit of its employees.
- (vii) Dividend received from P Ltd. on 10,000 equity shares of ₹ 10 each purchased at ₹ 100 per share on 10th October, 2017. The rate of dividend declared is 100%, the record date being 10th December, 2025. These shares were sold on 15.3.2026 at ₹ 130 per share. Long term capital gain of ₹ 3 lakhs is credited in statement of profit and loss. Fair market value of shares as on 31.1.2018 is ₹ 110.
- (viii) Provision for gratuity based on actuarial valuation ₹ 6,00,000 was debited to statement of profit and loss. Actual gratuity paid ₹ 1,50,000 was debited to provision for gratuity account.

Other information:

- (1) Provision for bonus for the year 2024-25 paid on 15.11.2025 ₹ 98,000. It is inclusive of payment by bearer cheque of ₹ 34,000 to one employee.
- (2) The company has purchased and put to use a commercial vehicle of ₹ 8,00,000 for the purpose of business on 21.03.2026 and calculated depreciation@15% for the full year. Depreciation debited to the statement of profit and loss is calculated on all other assets as per the rates prescribed in the Income-tax Act, 1961.

Compute the total income of the company chargeable to tax for the A.Y. 2026-27, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes.

Question 2A

(8 Marks)

Alpha and Beta Tyres Limited, an Indian Company engaged in the manufacture of Tyres, has adopted

Ind AS from 1.4.2022. The following particulars are provided for the year ended 31.3.2026:

Net profit as per statement of profit and loss is ₹ 20 crores after debit and credit of following items:

Items Debited:

- (i) Depreciation ₹ 18 crores. Included in depreciation is ₹ 3 crores, being amount provided on revalued assets.
- (ii) Interest charged for delay in remittance of tax deducted at source ₹ 20 lakhs.

Items Credited:

- (i) Share Income from Association of Persons in which the company is a member ₹ 50 lakhs. (The AOP is charged to tax at Maximum Marginal Rate)
- (ii) Amount of ₹ 6 crores withdrawn from revaluation reserves on account of revaluation of assets.

Other Information:

- 1. The application of a financial creditor for corporate insolvency resolution process has been admitted by the Hyderabad Bench of the National Company Law Tribunal under section 7 of the Insolvency and Bankruptcy Code, 2016.
- 2. Brought forward business loss and depreciation.

Assessment Year	Business Loss	Depreciation
2021-22	₹ 3 crores	₹ 1 crore
2022-23	₹ 5 crores	₹ 2 crores

- 3. Items credited to other comprehensive income which will not be reclassified to profit or loss:
 - (i) Re-measurement of defined employee retirement benefits plan ₹ 50 lakhs.
 - (ii) Revaluation surplus of property, plant and equipment ₹ 1 crore.
- 4. The transition amount as on convergence date 1.4.2022 stood at ₹ 5 crores including capital reserve of ₹ 50 lakhs (credit balance).
- 5. Tax payable under the regular provisions of the Income-tax Act, 1961 is ₹ 0.73 crores.

Required:

- (i) Compute Minimum Alternate Tax payable by the company for the Assessment Year 2026-27.
- (ii) Compute the amount of MAT credit eligible for carried forward.

Question 2B

(6 Marks)

Simran (P) Ltd. holds 55% of shares in Al Kuber Ltd., a Company incorporated in Dubai. Al Kuber Ltd. has its offices in India also.

Details relating to Al Kuber Ltd. for year ended March 2026 are as stated below: (₹ in crores)

Particulars	India	Dubai
• Fixed Assets after considering Depreciation for tax purposes	1500	650
• Intangible Assets	225	1075
• Other Assets (value as per books of A/c)	800	1900
• Income from trading operations. The above figure includes:	730	1370
a. Income from transactions where sales are to AE	20	40
b. Income from transactions where purchases are from AE	30	55
c. Income from transactions where sales/purchases are to/from AE	45	80
• Interest & Dividend from investments	560	320

• No. of employees	70	90
✓ Unskilled employees out of the above mentioned total employees (resident in respective countries)	5	30
• Payroll expenses on employees	940	1250
✓ Payroll expenses on Unskilled employees out of the above mentioned total Payroll expenses	100	415
• No. of Board Meetings held	3	4

Determine the Residential Status of Al Kuber Ltd. for A.Y. 2026-27.

Question 3A

(8 Marks)

Ramnarayan Foundation Trust was formed on 01.04.2009. It applied for registration u/s. 12AA of the Act and got the registration approved from prescribed authority with effect from 01.04.2013. The trust got the exemption from payment of taxes satisfying the conditions laid down in Sections 11 to 13 from 01.04.2013. The trust got dissolved on 29.12.2025.

The Balance Sheet of the Trust on the date of dissolution was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Corpus of the trust	6,00,000	Land and Building	12,00,000
Reserves (created out of accumulated amount of 15% each year)	3,00,000	Investment in Equity Shares - Quoted	4,00,000
Loan taken for purchase of Land and Building	9,00,000	Investment in Equity Shares - Unquoted (in Z Ltd.)	1,50,000
Loan taken for the purchase of unquoted shares (taken in year 2010-11)	1,00,000	Cash	1,00,000
		Bank Balance	50,000
Total	19,00,000	Total	19,00,000

Additional information:

- (i) FMV of Land and Building is ₹ 50,00,000.
- (ii) Land and Building of ₹ 3,00,000 is acquired out of agricultural income.
- (iii) Market Value of quoted shares on the date of dissolution is ₹ 18,00,000.
- (iv) 50% of the Unquoted shares were acquired during the year 2010-11.
- (v) With respect to Z Ltd. in which the trust invested in unquoted shares, the following additional information was available as on 29.12.2025:
 - (a) 1,00,000 Equity Shares with face value of ₹ 10 each
 - (b) Total Book Value of the assets (other than bullion, jewellery) is ₹ 60,00,000.
 - (c) Market Value of bullion and jewellery is ₹ 30,00,000.
 - (d) Liabilities amounting to ₹ 35,00,000.
- (vi) The trust distributed the assets on dissolution, valuing ₹ 8,00,000 to another trust registered u/s 12AB of the Act before 31.12.2026.

Compute the tax payable by Ramnarayan Foundation Trust u/s 115TD.

Question 3B

(6 Marks)

Miss Sapna, a resident of India and a salaried employee employed with a private co., aged 30 years, received the following sums during the previous year 2025-26.

Basic Salary	₹ 45,000 p.m.
DA	10% of basic salary
Transport Allowance	₹ 8,000 p.m.
Medical Allowance	₹ 3,500 p.m.

She contributed ₹ 15,000 to approved Pension Fund of LIC. She also paid ₹ 1,75,000 by account payee cheque for mediclaim premium to insure the health of her father, aged 65 years, who is not dependent on her as a lumpsum payment for 5 years including the current previous year.

Apart from this, she also provided guest lecture to a foreign university during the year. She received ₹ 7,92,000 from such university after deduction of tax of ₹ 1,08,000 in the country in which such university is located. India does not have any double taxation avoidance agreement under section 90 of the Income-tax Act, 1961, with that country. Compute the tax liability of Ms. Sapna for the A.Y. 2026-27, assuming that she opted out of the default tax regime under section 115BAC.

Question 4A

(8 Marks)

During the previous year 2025-26, Mr. Vivek, a non-resident became partner in a partnership firm M/s Pal & Co., India and contributed ₹ 50 lakhs towards capital. He was paid interest @10% as interest on capital and his profit share every year by the firm, as per the terms of the partnership deed. His profit share was ₹ 4 lakhs. During the year, firm paid ₹ 5 lakhs to Mr. Vikas, (a non- resident) friend of Mr. Vivek towards fees for technical services (FTS) for rendering of services for a project in India. Mr. Vivek and Mr. Vikas both are resident of Country X.

- (i) As a tax consultant for M/s Pal & Co., India, you need to advise the firm regarding tax deduction at source on the payments (i.e., interest on capital and share of profit) made to Mr. Vivek and FTS payment to Mr. Vivek, considering that India has no DTAA with Country 'X'. In case tax is not deductible at source, is there any other related requirement to be complied with by the firm?
- (ii) If India has a DTAA with Country 'X' providing for deduction of tax at 10% in respect of FTS then, what is the remedy available in case M/s Pal & Co., India has deducted tax at the requisite rate provided under the Income-tax Act, 1961?

Question 4B

(6 Marks)

ABC (P) Ltd., Bangalore is engaged in the manufacture of electronic goods and exporting the same to various associated and other enterprises across Southeast Asia. The report with respect to its international transactions with AE has been furnished for all years. The company has applied for APA in respect of the transactions with its AE. Application was filed on 15th March 2025 which was signed on 5th May 2025.

The company also applied in respect of the international transactions to which APA applies for rollback benefit which was agreed and signed in January 2026. The details of the status of income tax assessments are as follows:

- A.Y. 2020-21 – The matter is pending before High Court with regard to acquisition of a company by the assessee and the dispute is about set off of loss of the erstwhile company.
- A.Y. 2021-22 and A.Y. 2022-23 - There is no dispute and the assessments have been completed.

- A.Y. 2023-24 - The assessment for the A.Y. 2023-24 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 500 lakhs.
- A.Y. 2024-25 - ALP of international transaction was disputed before the tribunal which set aside the order for fresh consideration by the Assessing Officer in November 2025.
- A.Y. 2025-26 - The income tax return ('ITR') was filed on 29th December 2025.

If the APA is applied, the ALP determined for the A.Y. 2023-24 would get enhanced by ₹ 300 lakhs as against ₹ 500 lakhs originally determined by TPO.

Discuss the applicability of rollback agreement for various assessment years in case of ABC (P) Ltd.

Question 5A

(8 Marks)

- (i) Ms. RSRZ and Co. Ltd., sold one of its factory building for ₹ 14 lakhs on 19.3.2026. The building was acquired on 1.4.2015 and the assessee was using it for manufacturing activity and accordingly, depreciation was also being claimed. After sale of the building, the assessee reinvested the amount of capital gain in long-term specified assets under section 54EC and claimed exemption thereunder. The AO rejected the claim for exemption by the assessee and regarded that since the asset sold was depreciable asset, provisions of section 50 will be applicable and accordingly the assessee is not entitled to exemption under section 54EC. Discuss the validity of AO's claims.
- (ii) Saraswati Centre of Excellence Ltd. (SCEL) is an Indian company which is the end-user of shrink-wrapped computer software directly imported from Kallang Ltd. (KAL), a Singapore company (whose POEM is in Singapore) through an End-User Licence Agreement (EULA).

The broad terms of the EULA between the two companies are as follows -

Grant of licence. KAL grants SCEL a limited non-exclusive licence to install, use, access, display and run one copy of the shrink-wrapped Computer Software (SWCS) on a single Kallang Mobile Device, local hard disk(s) or other permanent storage media of one computer. SCEL should not make SWCS available over a network where it could be used by multiple computers at the same time. SCEL may make one copy of the SWCS in machine readable form for backup purposes only; provided that the backup copy must include all copyright or other proprietary notices contained on the original.

Reservation of rights and ownership. KAL reserves all rights not expressly granted to SCEL in this EULA. The SWCS is protected by copyright and other intellectual property laws and treaties. KAL owns the title, copyright and other intellectual property rights in the SWCS. The SWCS is licenced (only for use and not any other purpose), not sold.

Limitations on end user rights. SCEL shall not, and shall not enable or permit others to, copy, reverse engineer, decompile, disassemble, or otherwise attempt to discover the source code or algorithms of, SWCS (except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation), or modify, or disable any features of, SWCS, or create derivative works based on the SWCS. SCEL should not rent, lease, lend, sub-license or provide commercial hosting services with the SWCS. SCEL should not transfer this EULA or the rights to the SWCS granted herein to any third party.

Based on the above terms of EULA, the provisions of the Income-tax Act, 1961 and the India-Singapore DTAA (the relevant extract of which is given below), examine whether the amount paid by SCEL to KAL, as consideration for the use of the SWCS can be considered as payment of royalty for the use of copyright in the computer software. If yes, are tax deduction provisions u/s 195 attracted in this case? Examine.

Extract of Article 12 of India-Singapore DTAA – Royalties and Fees for Technical Services

1. Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the royalties or fees for technical services, the tax so charged shall not exceed 10 per cent.
3. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use :
 - (a) any copyright of a literary, artistic or scientific work, including cinematograph film or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, including gains derived from alienation of any such right, property or information.

Question 5B

(6 Marks)

Examine and state the correctness or otherwise of each of the following in the context of BEPS Action Plan and Income-tax Act, 1961 and answer in brief with reasons/contents thereof:

- (i) "Country by Country (CBC) report not requires Multi National Enterprises (MNEs) to provide an annual report of economic indicators". Explain with reference to BEPS Action Plan.
- (ii) What are the basic three fundamental pillars of BEPS Action Plans?
- (ii) Why there is a need for international collaboration to protect tax sovereignty of its countries?

Question 6A

(6 Marks)

A search was conducted u/s 132 of the Income-tax Act, 1961 in the case of LMN Jewellers (P) Ltd., a gold jewellery retail chain. As part of the post search enquiries, data from the billing software was analysed. On analysis of this data, it was found that the company was involved in violation of section 40A(3) in a major way to the tune of ₹ 20 crores in the purchase of old gold.

In order to verify the findings culled from digital data, some of the customers whose whereabouts were available from computer records were contacted and their statements were recorded under oath. These customers admitted under oath that they had sold old gold and received the amounts (all exceeding ₹ 10,000) in cash. The fact which emerged from the enquiries is that LMN Jewellers (P) Ltd. purchase old gold and make payments for these purchases in cash, even if they exceed ₹ 10,000.

However, the tax auditor had mentioned "Yes" in response to the statement in sub-clause (A) of Clause 21(d) on whether the expenditure covered under section 40A(3) read with Rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. The tax auditor submitted that standing instructions were given by the management of the entity to the employees to make payments above ₹ 10,000 only through account payee cheques and/or bank drafts or other permissible electronic modes; and copy of these instructions were verified by him. He further submitted that he had also taken a representation from the Management that net payment in cash to any person in a day did not exceed ₹ 10,000. Also, he mentioned that the test checks conducted by him did not reveal any violation.

Examine the ethical implications in this case and the consequences thereof.

Question 6B

(4 Marks)

Aditya Co. Ltd. is engaged in manufacturing activity. The machineries owned by it have become old and obsolete. The company wants to know whether to replace machineries by borrowing loan (or) buy the finished goods from open market and sell in its brand name. Relevant details are as under:

Cost of machinery if acquired ₹ 500 lakhs. The company has own funds of ₹ 200 lakhs and would borrow ₹ 300 lakhs from bank @9% per annum interest to buy the machinery. The sales would be ₹ 2500 lakhs with net profit of 15% before tax.

In case, the assessee decided to buy and sell the goods, the margin of profit would be 5%. The funds so retained would earn interest income of 9% per annum.

Note: Ignore other commercial considerations and GST input tax credit. Assume tax rate @30% (ignore Surcharge and Cess).

Advise the company suitably supporting your views.

Question 6C

(4 Marks)

Examine the correctness or otherwise of the following:

- (a) Mr. Rikky, a resident individual, is aggrieved by an order passed by the Board for Advance Ruling. Since the decision of the Board is binding on the applicant, he has no other option but to accept the ruling of the Board.
- (b) M/s Aritri Ltd., an Indian public sector company, wants to seek advance ruling from the Board for Advance Ruling (BOAR) in respect of a matter relating to computation of its total income involving a question of law relating to such computation. However, the matter is already pending before the Income-tax Appellate Tribunal (ITAT) as on the date of application for advance ruling. It cannot seek the BOAR ruling till the matter is pending before the ITAT.