

The WAY CA test series

CA FINAL

P4: DIRECT TAX LAWS
[PRE FINAL – FULL SYLLABUS]

15.08.2025

TIME : 3 hr 00 min

Maximum Marks : 100

All Question Papers are uploaded Here ↓

https://t.me/catestseries_thewaychannel

GENERAL INSTRUCTIONS TO CANDIDATES

1. Write your name and subject name at the top of the first page of your answer sheet
2. The question paper comprises of two parts, Part I and Part II.
3. Part I comprises of MCQs and Part II comprises of descriptive questions.
4. Answers should be written only in English.
5. Duration of the examination is 3 hours only.
6. Students who want to get their paper evaluated follow the instructions given in the channel link above.

PART I

1. Answer all MCQs
2. After each MCQ, four options are given. Choose the correct and most appropriate option, and write the letter corresponding to that option on the first page of your answer sheet.

PART II

1. Question paper comprises 6 questions. Question no. 1 is compulsory.
2. Answer any 4 questions out of the remaining 5 questions.

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PART I

30 Marks

Case Scenario

The Assessing Officer surveyed TR & Hotels, which was within his jurisdiction, at 11:30 p.m. on 15.8.2024 for the purpose of obtaining information which may be relevant to the proceedings under the Income-tax Act, 1961. The restaurant is kept open for business every day between 11 a.m. and 12 midnight.

On 25.8.2024, the Assessing Officer entered RR & Hotels which was also within his jurisdiction at 9:15 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. This Restaurant is kept open for business every day between 7 am to 10:30 pm.

In both the above cases, the Assessing Officer impounded and retained in his custody for a period of 18 days (exclusive of holidays), books of account and other documents inspected by him, after recording reasons for doing so. The Assessing Officer, however, did not take prior permission from income-tax authority equivalent to Commissioner or above for doing so.

The owners of these restaurants claim that the Assessing Officer could not enter the restaurants after sunset and take away with him the books of account kept at the restaurants. The owners also claimed that the Assessing Officer ought to have obtained the prior approval of income-tax authority equivalent to Chief Commissioner or above before entering the restaurants.

From the information given above, choose the most appropriate answer to the following 1 to 5 questions: (10 Marks)

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1. Is the action of the Assessing Officer entering TR & Hotels at 11:30 pm valid?

(2 Marks)

- a) Not valid, since Assessing Officer entered the restaurant after the sunset.
- b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained for survey
- c) Not valid, since prior permission of income-tax authority equivalent to Chief Commissioner or above is not obtained by the Assessing Officer though he entered during the hours at which such place is open for the conduct of business.
- d) Not valid, since Assessing Officer entered after the sunset and prior permission of Chief Commissioner or above was not obtained.

2. Would your answer to MCQ 1 change if the Assessing Officer had surveyed TR & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?

- a) The action of Assessing Officer is not valid, since he entered the place after sunset and permission of income-tax authority equivalent to Chief Commissioner or above is not obtained.
- b) The action of Assessing Officer is valid, since he entered the place during the hours at which such place is open for conduct of business and permission of Chief Commissioner or above authorities not required to be obtained.

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- c) The action of Assessing Officer is not valid, since he has not obtained the permission of Chief Commissioner.
- d) The action of Assessing Officer is not valid, since he entered the place after 10 pm.
3. Is the action of the Assessing Officer entering RR & Hotels at 9:15 pm valid?
- a) Not valid, since Assessing Officer entered the restaurant after the sunset.
- b) Valid, since Assessing Officer entered during the hours at which such place is open for the conduct of business and prior permission of higher authorities is not required to be obtained.
- c) Not valid, since prior permission of Chief Commissioner or above is not obtained by the Assessing Officer though he entered the place during the hours at which such place is open for the conduct of business.
- d) Not valid, since Assessing officer entered after the sunset and prior permission of Chief Commissioner or above is not obtained.
4. Is the action of the Assessing Officer in impounding and retaining in his custody books of account and other documents of TR & Hotels, after recording reasons for doing so, without taking prior permission from income-tax authority equivalent to Commissioner or above, valid?
- a) The action of Assessing Officer is not valid, since prior approval of Commissioner or above authority is not obtained.
- b) The action of Assessing Officer is valid.

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- c) The action of Assessing Officer is not valid, since prior approval of Joint Commissioner is not obtained.
- d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents
5. Would your answer to MCQ 4 change if the Assessing Officer had surveyed TR & Hotels only for the purpose of verifying whether tax has been deducted/collected at source in accordance with the provisions of the Income-tax Act, 1961?
- a) The action of Assessing Officer is not valid, since prior approval of Commissioner or above is not obtained.
- b) The action of Assessing Officer is valid.
- c) The action of Assessing Officer is not valid, since he cannot impound or retain books of accounts or other documents.
- d) The action of Assessing Officer is not valid, since he cannot retain impounded books of accounts or other documents for a period
6. Mr. Tarun, a resident individual, sells handmade crafts exclusively through CraftKart Ltd., an e-commerce platform. He started his business on 01st October 2024. During the financial year 2024–25, the total sales facilitated through the platform amounted to ₹ 6,20,000. CraftKart Ltd. charged a commission of ₹ 20,000 and remitted final amount to Mr. Tarun on 31st March 2025 after deducting its commission and applicable TDS. Mr. Tarun has furnished his PAN to the platform. Based on the above facts, what is the correct amount of TDS deductible by CraftKart Ltd. under section 194-O of the Income-tax Act, 1961? (2 Marks)

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- a) ` 6,200
- b) ` 31,000
- c) ` 620
- d) ` 62,000

7. Mr. Aviral opened a bank account in Country “R” on 1.7.2020. He has made deposits of foreign currency equivalent to ` 5 lakhs on 1.7.2020, ` 7 lakhs on 1.10.2020, ` 12 lakhs on 1.9.2022 and ` 25 lakhs on 1.3.2024, in that bank, out of Indian income which has not been assessed to tax in India. The deposit of ` 12 lakhs on 1.9.2022 is made out of the withdrawal of earlier deposits made on 1.7.2020 and 1.10.2020 with the said bank. Further, out of ` 25 lakhs deposited by him on 1.3.2024, Mr. Arvind withdrew ` 2 lakhs on 31.3.2024. The value of an undisclosed asset in form of bank account under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 will be taken as: (2 Marks)

- a) ` 49 lakhs
- b) ` 47 lakhs
- c) ` 37 lakhs
- d) ` 35 lakhs

Case Scenario

Mr. Bhuvan places bulk order on ABC Marketplace Ltd., an e-commerce operator for buying 100 toasters, a product listed by DEF Seller, a partnership firm. ABC Marketplace acts as Buyer-side ECO for Mr. Bhuvan as well as Seller-side ECO for DEF seller and charges a convenience fee of `10/toaster to DEF Seller. DEF Seller processes the order and charges the buyer

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₹1170/toaster, including packaging, shipping and convenience fees. DEF Seller pays XYZ Logistics ₹5/toaster for shipping, MNO retailer ₹15/toaster for packaging and convenience fees of ₹10/toaster. DEF Seller raised invoice of ₹1170 per toaster. Mr. Sarthak placed an order for 500 decor wall clocks on Open Network for Digital Commerce (ONDC). These clocks are listed and owned by ABC marketplace Ltd.

Mr. Sarthak made a payment of ₹665/ wall clock on ONDC platform via Paytm. ONDC credited ₹655/ wall clock after deducting its convenience fees to ABC Marketplace Ltd. The invoice of ₹665/ wall clock include shipping charges of ₹10/ wall clock, packaging cost of ₹15/ wall clock and convenience fees of ₹10/ wall clock.

From the information given above, choose the most appropriate answer of MCQ 8 to 12: (10 Marks)

8. Is there any tax required to be deducted in respect of order placed by Mr. Bhuvan. If yes, by whom and what amount of tax needs to be deducted?
- a) Yes, tax of ₹1140 is required to be deducted by ABC Marketplace Ltd.
 - b) Yes, tax of ₹1170 is required to be deducted by ABC Marketplace Ltd.
 - c) Yes, tax of ₹1170 is required to be deducted by DEF Seller
 - d) No tax is required to be deducted as order value does not exceed ₹5,00,000.
9. Is there any tax required to be deducted in respect of order placed by Mr. Sarthak. If yes, by whom and what amount of tax needs to be deducted?
- a) Yes, tax of ₹3,325 is required to be deducted by ONDC
 - b) Yes, tax of ₹3,275 is required to be deducted by ABC Marketplace Ltd.

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- c) Yes, tax of ` 3,325 is required to be deducted by Mr. Sarthak
- d) No tax is required to be deducted as the order value does not exceed ` 5,00,000.
10. Would your answer to MCQ 5 be different in respect of the order placed by Mr. Bhuvan if it is assumed that DEF seller is an Individual and this is the only sales order received on ABC Marketplace Ltd.?
- a) No, tax of ` 1140 is still required to be deducted by ABC Marketplace Ltd.
- b) No, tax of ` 1170 is still required to be deducted by ABC Marketplace Ltd.
- c) No, tax of ` 1170 is still required to be deducted by DEF Seller
- d) Yes, tax is not required to be deducted in this case.
11. Assume that Mr. Bhuvan replaced 5 toasters and returned 5 toasters out of 100 toasters, what would be the adjustment of tax deduction in respect of these 10 toasters?
- a) No adjustment is required for tax deducted in respect of replaced toasters and the amount of tax deducted on returned toasters would be refunded to DEF seller by ABC Marketplace Ltd.
- b) No adjustment is required for tax deducted in respect of replaced and returned toasters.
- c) No adjustment is required for tax deducted in respect of replaced toasters and the amount of tax deducted on returned toasters would be adjusted against the next sale, if any.

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d) The amount of tax deducted on replaced and returned toasters would be refunded to DEF seller.

12. Assume that ABC Marketplace Ltd. provides a discount of ` 10 each to both Mr. Bhuvan and Mr. Sarthak on sale of toasters and wall clocks. Is there any tax required to be deducted at source? If yes, on what amount tax is deductible?

- a) Yes; on ` 1,17,000 for sale of toasters and on ` 3,32,500 for wall clocks
- b) Yes; on ` 1,16,000 for sale of toasters and on ` 3,22,500 for wall clocks
- c) Yes; on ` 1,17,000 for sale of toasters and on ` 3,27,500 for wall clocks
- d) No tax is required to be deducted as the order value does not exceed ` 5,00,000 in both cases.

13. Thunder Ltd., an Indian company, had taken on lease a commercial premises for its operations, with an initial security deposit of ₹ 4.2 crores paid to the lessor at the start of the lease agreement. After several years, the company decided to vacate the premises and relocate to a new location. However, a dispute arose between the company and the lessor concerning the terms for vacating the premises. To avoid prolonged litigation and expedite the resolution of the issue, Thunder Ltd. agreed to forgo the security deposit of ₹ 4.2 crores. Whether the amount of security deposit foregone by Thunder Ltd. allowable as deduction while computing business income? (2 Mark)

- a) Yes, allowable as deduction as such expenditure is of revenue nature and incurred on account of dispute

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- b) No, deduction would not be allowed as such expenditure is of capital nature
- c) Yes, allowable as deduction over the five years period
- d) Yes, allowable as deduction since the amount of foregone security deposit becomes the income of lessor.

14. Mr. Veer, a resident individual aged 45 years, has a total income of ₹ 4,05,00,000 for A.Y. 2025-26. His income includes a computed salary of ₹ 1,80,00,000, long-term capital gains of ₹ 60,00,000 taxable at 20% under section 112, and ₹ 45,00,000 under section 112A from a transfer on 23rd December 2024. He also earned short-term capital gains of ₹1,00,00,000 under section 111A from a transfer on 10th January 2025 and interest income of ₹ 20,00,000. What would be his tax liability for A.Y.2025-26, assume he has opt out for the default tax regime u/s 115BAC?

(2 Marks)

- a) ₹ 1,20,56,200
- b) ₹ 1,02,67,400
- c) ₹ 1,14,36,750
- d) ₹ 1,14,51,700

15. Blossom Tea Garden, a tea estate in Dibrugarh, Assam received ₹ 23,00,000 as compensation from an insurance company for severe damage to the green leaves due to a hailstorm in July 2023. Blossom tea estate is of the view that the entire receipt under the insurance policy for damage caused by the

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hailstorm to tea leaves will be agricultural income, hence, would not be chargeable to tax. Examine the contention of Blossom Tea Garden.

(2 Marks)

- a) Blossom Tea Garden's contention is incorrect; entire compensation is assessable as income from other sources.
- b) Blossom Tea Garden's contention is incorrect; entire compensation is assessable as manufacturing income.
- c) Blossom Tea Garden's contention is incorrect; it's deemed to be profit on sale of standing crop or the produce, therefore the same is taxable as profits and gains from business or profession.
- d) Blossom Tea Garden's contention is correct; no part of the compensation consists of manufacturing income, and it cannot be apportioned under rule 8 between manufacturing income and agricultural income. Therefore, the income will be agricultural income.

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PART – II

70 Marks

Question : 1(a)

14 Marks

M/s Cure Ltd., an Indian company, is engaged in the manufacturing of pharmaceutical products since 2020. Net profit as per statement of Profit and Loss for the year ended 31st March, 2024 was ` 95,45,000 after debiting or crediting the following items:

- (a) Paid ` 6,00,000 as expenses for public issue of shares. The public issue could not materialize on account of non-clearance by SEBI.
- (b) Goods purchased of ` 5 lakhs from M/s Sunny Traders (a micro enterprise as per MSMED Act, 2006) was delivered on 25.02.2024. Payment terms were agreed for 25 days from the date of delivery as per the contract in writing with Sunny Traders. The payment was actually made on 29.03.2024. However, no Interest or late payment charges were agreed upon between the parties in case of delay in payment.
- (c) Expense of ` 7,25,000 incurred for providing freebies to medical practitioners.
- (d) Depreciation of ` 12,50,000 charged on the basis of useful life of assets.
- (e) One-time license fee of ` 10 lakhs paid to a foreign Company for obtaining a franchise on 17th September, 2023.
- (f) The profit from setting up a warehouse in rural area for storage of sugar (before claiming deduction under section 35AD) is ` 17 lakhs. The warehouse commenced its operations on 24th November, 2023.
- (g) Power subsidy of ` 5,30,500 was received on 12-09-2023 with a stipulation that the same is to be adjusted in the electricity bills for the financial year 2022-23. The subsidy received was not included in the income for the year 2022-23.
- (h) The company earned ` 4,80,000 of profit from the sale of 3,000 shares of M/s ABC Ltd., a listed company. The shares were sold on 08-09-2023 for ` 260 per

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share. The highest price of ABC Ltd. quoted on stock exchange as on 31.01.2018 was ` 180 per share. These shares were purchased for ` 100 per share on 16-08-2015. STT paid both at the time of purchase and sale

(i) PNB waived a loan of ` 8,00,000 in a one-time settlement which includes ` 6,00,000 principal amount and ` 2,00,000 of arrear of interest amount. The loan was taken on 12.9.2020 to meet working capital requirement.

The Company furnished the following additional information relating to it:

- (i) Company has employed 50 new additional workers during the F.Y. 2023-24 on regular basis w.e.f. 01.07.2023 at the wages of 23,000 per month per employee. The regular employees participate in recognized provident fund. Wages to Additional workers were paid through an account payee cheque.
- (ii) The company has invested ` 40 lakhs in the construction of a warehouse (including land of ` 25 lakhs) in a rural area for the storage of sugar as an additional line of business.
- (iii) Depreciation as per the Income-tax Rules, 1962 without considering any adjustments given above is ` 9,20,000.
- (iv) The company's turnover for the financial year 2021-22 was ` 395 crores.
- (v) Book Profit of the company for the A.Y. 2024-25 is ` 99.50 lakhs.

Compute the total income of the company and optimum income-tax liability for the assessment year 2024-25. Your answer must give reasons for treatment of each item given above and also for the tax liability.

Question : 2(a)

8 Marks

Cowearth Pvt. Ltd. was converted into a Limited Liability Partnership (LLP), named Cowearth LLP, on 1st October 2024. The following details pertain to Cowearth Pvt. Ltd. as on 31st March 2025:

1. Brought forward business loss from P.Y. 2020-21: ` 65 lakhs
2. Written down value (WDV) of assets under the Income-tax Act, 1961:

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- Plant and Machinery (15%): WDV ` 28 lakhs (Market value ` 27 lakhs)
 - Plant and Machinery (35AD deduction claimed): Cost ` 67 lakhs
 - Building (10%): WDV ` 64 lakhs (Market value ` 95 lakhs)
3. Land (acquired in 2015): Cost ` 90 lakhs (Market value ` 140 lakhs)
4. Expenditure on voluntary retirement scheme (VRS) incurred during P.Y. 2022-23: ` 34 lakhs. Deduction of ` 6.8 lakhs each has already been allowed for P.Y. 2022-23 and P.Y. 2023-24 under section 35DDA.
5. Unadjusted MAT Credit under section 115JAA: ` 9.2 lakhs
6. Unabsorbed depreciation: ` 75 lakhs

Assuming that the conversion complies with all the prescribed conditions under section 47(xiii b), explain the tax treatment of each of the above items in the hands of Cowealth LLP post-conversion.

Question : 2(b)

6 Marks

In respect of Mr. Ravana, who is engaged in the export of fabrics, information is flagged as per the risk management strategy formulated by the CBDT for A.Y.2020-21, A.Y.2021-22, A.Y.2022-23 and A.Y.2023-24.

In case of Mr. Ramesh (friend of Mr. Ravana), who is engaged in trading of commodities, a search was initiated u/s 132 in April 2024, consequent to which the Assessing Officer has in his possession certain documents showing information pertaining to shares of value ` 28 lakhs purchased in the P.Y. 2017-18 and shares of value of ` 21 lakhs purchased in the P.Y.2018-19.

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Can the Assessing Officer issue notice under section 148 to Mr. Ravana and Mr. Ramesh in April 2024? If so, in respect of which assessment years can notice be issued? Is it necessary that they be provided with an opportunity of being heard before issuance of notice?

What would be your answer with respect to issue of notice to Mr. Ramesh if the shares purchased in the P.Y.2017-18 were of ` 30 Lakhs instead of ` 28 lakhs, all other facts remain the same?

Question : 3 (a)

5 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 February 2023 which was signed on 5th May 2023.

The company also applied in respect of the international transactions to which APA applies for rollback benefit which was agreed and signed in January 2024. The details of the status of income tax assessments are as follows:

- A.Y. 2018-19 – 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. 2019-20 and A.Y. 2020-21 - There is no dispute and the assessments have been completed.

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- A.Y. 2021-22 - The assessment for the A.Y. 2021-22 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ` 500 lakhs.
- A.Y. 2022-23 - ALP of international transaction was disputed before the tribunal which set aside the order for fresh consideration by the Assessing Officer in November 2023.
- A.Y. 2023-24 - The income tax return ('ITR') was filed on 29th December 2023.

If the APA is applied, the ALP determined for the A.Y. 2021-22 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 : 3 (b)

5 Marks

Pigeon Limited was amalgamated with Laksh Limited on 01.04.2024. All the conditions of section 2(1B) were satisfied.

Pigeon Limited has the following carried forward losses as assessed till the Assessment Year 2024-25:

- Speculative Loss: ` 5.5 lakhs
- Unabsorbed Depreciation: ` 20 lakhs
- Unabsorbed Capital Expenditure on Scientific Research: ` 2.5 lakhs
- Business Loss: ` 125 lakhs

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Laksh Limited has computed a profit of ` 160 lakhs for the Financial Year 2024-25, which is before adjusting the eligible losses of Pigeon Limited but after accounting for depreciation at 15% on ` 150 lakhs, the consideration at which plant and machinery were transferred upon amalgamation. However, as per Income-tax records, the written down value (WDV) of the assets in the hands of Pigeon Limited as on 1st April 2024 was ` 100 lakhs.

The profit of Laksh Limited of ` 160 lakhs also includes a speculative profit of ` 10 lakhs.

Compute the total income of Laksh Limited for Assessment Year 2025-26 and indicate the losses/ other allowances to be carried forward by it.

Question : 3 (c)

4 Marks

Mrs. Urvashi, aged 56 years, a resident individual acquired a residential house at Ayodhya on 01.04.1993 for ` 45,00,000. The Fair market value of the property as on 01.04.2001 was ` 1,20,00,000 and the stamp duty value as on 01.04.2001 was ` 1,02,00,000.

Mrs. Urvashi sold her residential house located at Ayodhya to Mr. Sandeep Kumar on 15.10.2024 for ` 15,50,00,000. The value determined by the Stamp Duty Authority on 15.10.2024 was ` 17,00,00,000. Mr. Sandeep Kumar was handed over the possession of the property on 15.10.2024 and the registration process was completed on the same date. He paid the sale proceeds in full on the date of registration.

After recovering the sale proceeds from Sandeep Kumar, Mrs. Urvashi purchased one residential plot at Amritsar for ` 8 crores on 18.02.2025. She

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also deposited ` 3 crores in a Saving account opened with State Bank of India, Amritsar under Capital gain account scheme on 31.03.2025 for the construction of the residential house on above plot.

You are required to calculate the taxable capital gain in the hands of Mrs. Urvashi for the A.Y. 2025-26 as per the provisions of Income-tax Act, 1961. Cost Inflation Index for F.Y. 2001-02: 100 and 2024-25: 363.

Question : 4 (a)

8 Marks

Attempt any two out the following three sub-parts: (4 Marks Each)

(i) An Income-tax authority did not file an appeal to the Income-tax Appellate Tribunal against an order of the Commissioner (Appeals) decided against the Income-tax department on a particular issue in case of one assessee, Bela for assessment year 2024-25 on the ground that the tax effect of such dispute was less than the monetary limit prescribed by CBDT. In assessment year 2025-26, similar issue arose in the assessments of Shweta and her sister Shefali, which was decided by the Commissioner (Appeals) against the Department. Can the Income-tax department move an appeal to the Tribunal in respect of A.Y. 2025-26 against the orders of the Commissioner (Appeals) for Shweta and her sister Shefali?

(ii) The Assessing Officer filed a complaint against M/s. D & G, a firm, for failure to furnish its return of income for the A.Y.2018-19 within the due date under section 139(1). The complaint was filed in accordance with section 276CC of the Income-tax Act, 1961. The tax payable on the assessed income, as reduced by the advance tax paid and tax deducted at source, was `70,000. The appeal filed by the firm against the order of assessment was allowed by

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the Commissioner (Appeals). The Assessing Officer passed an order giving effect to the order of the Commissioner (Appeals). The tax payable by the firm as per the said order of the Assessing Officer was ₹ 9,100. The Assessing Officer has accepted the order of the Commissioner (Appeals) and has not preferred an appeal against it to the Income Tax Appellate Tribunal. The firm wants to know if the prosecution's actions may be sustained given the case's facts and circumstances.

(iii) In March 2013, Mr. Rajiv, an Indian national, returned to India to take charge as CEO of BOS (P) Ltd., an Indian company. He held this position from April 1, 2013, to March 31, 2020. Before this, he worked for Orange Inc. in the Singapore from May 2000 to February 2013. He returned to Orange Inc. in the Singapore in April 2020 and permanently settled there. Mr. Rajiv visits India every year only for 1 month during his stay in Singapore. It was discovered that throughout his tenure as CEO of BOS (P) Ltd., he accumulated undeclared wealth and income, including

- (a) shares of listed companies in Singapore acquired on 10th December, 2012;
- (b) acquired one apartment in Canada on 20th April 2015 and
- (c) established a leather goods manufacturing factory in Malaysia on 15th April 2020.

The above undisclosed assets came to the notice of Assessing Officer in April 2024, and he issued notice under the Black Money Act, 2015 in July, 2024. Is the Assessing Officer's notice of Mr. Rajiv under the Black Money Act of 2015 legally tenable?

Question : 4 (b)

6 Marks

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What does a hybrid mismatch mean, and how is it different from a branch mismatch? Describe briefly the reasons of hybrid mismatch arrangements. Which BEPS Action Plan provides recommendations in this regard?

Question : 5 (a)

8 Marks

Ms. Kaviya Maran is a popular Indian pop singer. She has business interest in Country X and Y as well. She is a resident in India for the A.Y. 2025-26. The details of income earned by Ms. Kaviya Maran from India as well as Country X and Country Y with which India does not have any DTAA, during the P.Y. 2024-25 are as under:

Type of Income	India	X	Y
	(₹ in crores)		
Income from house property (Computed)	4.3	(1.3)	-
Business/ Professional income:			
Singing profession	9	-	2
From being the owner of cricket team Delhi Super Players	5.5	-	-
Other business		7.2	2.9
Share income from partnership firm (not evidenced by an instrument in writing)		4.8	-
Agricultural income	1.5	-	1.2

Ms. Kaviya has deposited ` 1.5 lakhs in PPF and paid Life Insurance premium of ` 1 lakh. In Country X, share income is not exempt and loss from house property is not eligible for being set off against other income. In Country Y, agricultural income is chargeable to income-tax. In Country X, Ms. Kaviya has paid income-tax of ` 2.16 crores and in Country Y ` 2.44 crores on the total

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P4: DIRECT TAX LAWS
[PRE FINAL – FULL SYLLABUS]

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TIME : 3 hr 00 min

Maximum Marks : 100

income earned in those countries. Compute the net tax liability of Ms. Kaviya for the A.Y.2025-26, assuming that she is paying tax under default tax regime under section 115BAC.

Question : 5 (b)

6 Marks

Mr. Pradeep started his interior decoration profession in 2023. His total income receipts for the F.Y. 2024-25 are ` 65 lakhs. The details of receipts during the year 2024-25 are as follows:

Particulars	Amount (₹)	Mode of receipt/payment
Date of Receipt		
08.4.2024	15,15,000	NEFT
	32,500	A/c payee cheque
	1,12,000	Bearer cheque
27.06.2024	74,000	A/c payee cheque
	8,75,000	NEFT
12.09.2024	12,28,000	NEFT
	2,18,000	UPI
	2,14,000	A/c Payee Cheque
Other aggregate receipts not exceeding ₹ 2,000 per person on certain occasions from various customers till 31 st March 2025. Out of this, receipts of ₹ 1,22,800 are received in Bearer cheque.	22,31,500	A/c payee cheques, NEFT and UPI
Payments		
Aggregate of all payments made during the P.Y. 2024-25	35,00,000	
Amount incurred for expenditure in cash (not exceeding ₹ 10,000 per person in each case)	23,19,000	

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Mr. Pradeep contended that he is not required to get his accounts audited since his turnover does not exceed ` 75 lakhs and he is eligible to declare his income as per presumptive provisions of section 44ADA. Examine the contention of Mr. Pradeep.

Question : 6 (a)

6 Marks

Explain the following terms in the context of interpretation of tax treaties:

- (i) Principle of Contemporanea Expositio
- (ii) Teleological Interpretation.

Question : 6 (b)

4 Marks

The Indian branch of Slack Ltd, Country Y has carried out some transactions with ZH Co. Ltd., Bengaluru in the financial year 2024-25. The value of the transaction is ` 600 crores. ZH Co. Ltd. applied for advance ruling in January, 2025 to know exactly the tax consequences of its transactions with the non-resident Slack Ltd., Country Y, both for itself and on non-resident.

What would be the amount of fee to be accompanied with the applicable for advance ruling.

Assume application for ruling is accepted by Board for Advance Rulings (BAR). On 30.04.2025 BAR pronounced its ruling and said ruling was communicated to ZH Co. Ltd. on the same date. ZH Co. Ltd. was, however, not satisfied with said ruling. State whether the advance ruling pronounced by BAR is binding

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on ZH Co. Ltd. Is there any remedy available to ZH Co. Ltd. if it is aggrieved with the said ruling? Examine.

Question : 6 (c)

4 Marks

From the following details compute the taxable income of Mr. Mohan for the sale and purchase of Bitcoins and NFT made during the year:

Date	Particulars	Units	Amount (₹)
June 15, 2024	Purchase (Bitcoin)	5000	50,000
July 15, 2024	Sale (Bitcoin)	2500	25,500
July 20, 2024	Sale (Bitcoin)	2500	28,750
	Expenses Incurred on Sale of Bitcoin		15,000
August 1, 2024	Purchase (NFT)	10000	1,50,000
August 16, 2024	Sale (NFT)	6000	89,000
August 31, 2024	Sale (NFT)	4000	56,000
	Expenses Incurred on Sale of NFT		18,000

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