

Topic wise Test Papers of CA Inter - Direct Tax -MAY/SEP-26 & JAN 27 Exams

Topic: Total Income & Tax Liability

Total Marks: 75 Marks

Time Allowed: 130 minute

Answers:

Part-A Multiple Choice Questions

[Total 30 Marks]

1. Answer : A
2. Answer : C
3. Answer : D
4. Answer : A

Question	Answer	Remarks
5	(iv)	Refer section 6(1A)
6	(iv)	TDS u/s 194 = $350 \times 10 \times 200\% \times 10\% = 700$
7	(iv)	TDS u/s 194-1B = $60,000 \times 4 \times 2\% = 3,600$ in the month of March 2026
8	(i)	Basic salary = $2,75,675 \times 4 = 11,02,700$ COLA = $1,20,200 \times 4 = 4,80,800$ Other allowances = $1,56,000 \times 4 = 6,24,000$ HRA received = $1,37,838 \times 4 = 5,51,352$ Less: HRA exemption = 81,640 Gross salary = 26,77,202 Less: Standard deduction = 50,000 Net Salary = 26,27,202
9	(iv)	
10	(a)	80C 115466
		80D 35000
		80D 5000
		80TTB 50000
		205466
11	(c)	Pension net of standard deduction (715461+14565-50000) 680026
		SBI Interest 4352
		FD Interest 75000
		759378

12	(a)	Pension net of standard deduction (715461+14565-75000)	655026	
		SBI Interest	4352	
		FD Interest	75000	
			734378	
13	(c)	Refer section 6(2)		
14	(d)	-		
15	(c)	6% of total gross receipts from business will be income as all transactions are through digital modes Other receipts/ gifts are exempt		

Part- B Descriptive Questions**[Total 45 Marks]****Solution 1:****Computation of total income and tax payable by Mr. Raman for A.Y. 2026-27 under default tax regime**

	Particulars	₹	₹
I	Income from house property		
	Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [₹35,000 x 12]	4,20,000	
	<i>Less:</i> Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	<i>Less:</i> Deduction @30% of NAV	1,26,000	2,94,000
II	Profits and gains of business or profession		
	Net Profit	9,25,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income		
	- Travelling expenses [Allowable since the same is incurred wholly and exclusively for business purpose]	Nil	
	<i>[Note - Alternatively, it is possible to assume that the proportionate foreign tour expenditure attributable to attending the marriage ceremony of a vendor's son is a personal expenditure. In such case, ₹2,40,000 X 4/10 = ₹96,000 would be disallowed.]</i>		
	- Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil	
	- Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted]	3,88,000	
	- Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [₹66,000/2]	33,000	
	- Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000	
	- Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
	- Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2026 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2026]	49,000	

	Particulars	₹	₹
	- Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2026 i.e., within 15 days from 31.3.2026.	Nil	
	However, since the payment is made in cash on 5.4.2026, ₹1,34,000 for purchase of raw material would be the deemed income of P.Y. 2026-27 as per section 40A(3A)]		
		14,70,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	- Rent received for let out portion	4,20,000	
	- Gain on sale of land	4,00,000	
	Less: Depreciation		
	- On trademark [₹2,00,000 x 25% x 50%, since trademark is put to use for less than 180 days]	25,000	
	- On Car [₹5,40,000 x 15%]	81,000	
	- On new Plant & machinery [₹2,50,000 x 15%]	37,500	
	- On Building [₹8,00,000 x 10%]	80,000	
	Additional depreciation		
	- On new Plant & machinery [Not allowable under default tax regime]	Nil	
	Income from Business		4,26,500
III	Capital Gains		
	Full value of consideration	44,00,000	
	Less: Cost of acquisition	40,00,000	
	Short term capital gains on land [Since land is held for less than 24 months]		4,00,000
	Gross Total Income		11,20,500
	Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
	Total Income		11,20,500
	Tax Payable		
	Up to ₹4,00,000	Nil	
	From ₹4,00,001 to ₹8,00,000 @5%	20,000	
	From ₹8,00,001 to ₹11,20,500 @10%	32,050	
			52,050

	Particulars	₹	₹
	<i>Less: Rebate u/s 87A [52,050 or 60,000 whichever is lower]</i>		52,050
	Tax Payable (Rounded off)		Nil

Computation of total income and tax payable by Mr. Raman for A.Y. 2026-27 under normal provisions of the Act regime

	Particulars	₹	₹
	Gross Total Income as per default tax		11,20,500
	<i>Less: Additional depreciation on new Plant & machinery [₹2,50,000 x 20%]</i>		50,000
	<i>Less: Contribution to scientific research association approved u/s 35</i>		75,000
	Gross Total Income as per normal provisions of the Act		9,95,500
	Less: Deduction under Chapter VI-A		
	Deduction under section 80C		
	Tuition fees to a college for daughter's education	25,000	
	Deduction under section 80D		
	Preventive health check-up for self and parents restricted to	5,000	
	Deduction under section 80GGC		50,000
	Donation to a registered political party since the payment is made otherwise than by cash	20,000	
	Total Income as per normal provisions of the Act		9,45,500
	Tax Payable		
	Up to ₹3,00,000	Nil	
	From ₹3,00,001 to ₹5,00,000 @5%	10,000	
	From ₹5,00,001 to ₹9,45,500 @20%	89,100	
			99,100
	<i>Add: Health and education cess @4%</i>		3,964
	Tax Payable		1,03,064
	Tax Payable (Rounded off)		1,03,060

Since tax payable under default tax regime is Nil, it would be beneficial for Mr. Raman to pay tax under default tax regime u/s 115BAC.

Solution 2:**Computation of total income of Mr. Shobhit for A.Y. 2026-27**

Particulars		₹	₹	₹
I	Income from business or profession Net profit as per profit and loss account Add: Items of expenditure not allowable while computing business	27,50,000	57,25,000	
	- Depreciation as per books of accounts			
	- Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset as first put to use not allowable as deduction. Accordingly, interest of ₹2,01,667 [₹55,00,000 x 11% x 4/12] has to be added back, since the same is debited to the profit and loss account]	2,01,667		
	- Compensation on voluntary retirement [Only 1/5th of the compensation paid is allowable in the current year. The remaining are allowable in the four succeeding years in equal installments. Hence, 4/5th of ₹8 lakh debited to profit and loss account has to be added back]	6,40,000		
	- Payment to M/s Kamal & Sons, a micro enterprise, for purchase of raw material [Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was within the time specified in the written agreement which is within 45 days from 15.3.2026]	Nil		
	- Payment to M/s Hitesh & Sons, a medium enterprise, for purchase of raw material [Allowable, as section 43B which mandates allowability of expenditure on actual payment basis is not applicable on medium enterprise and Mr. Shobhit follows mercantile system of accounting]	Nil		
	- Excess Contribution towards employees' pension scheme [Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). Accordingly, disallowance is required to be made since contribution made is not within the prescribed limit. Disallowance under section 40A(9) = 2,00,000 (20% of ₹10 lakh) - 14% of ₹14,00,000 (₹10 lakh + ₹4 lakh) = ₹4,000]	4,000	35,95,667	
			93,20,667	
	Less: Items of income to be treated separately under the respective head of income			

Particulars		₹	₹	₹
	- Income-tax refund including interest on refund of ₹3,850		13,850	
			93,06,817	
	Less: Allowable expenditure			
	Normal depreciation on			
	(i) Opening WDV			
	- Factory Building ₹6,45,000 @10%	64,500		
	- Plant & Machinery ₹8,00,000 @15%	1,20,000		
	(ii) Computer acquired on 31.8.2025 for ₹25,000 @40% [Since payment of ₹28,000 made in cash in a day to a person exceeds ₹10,000, the same would not be included in the actual cost of computer. Hence, only actual cost of ₹25,000 is eligible for depreciation]	10,000		
	(iii) On Plant & Machinery acquired on 1.5.2025 for ₹57,01,667 @15% [₹55,00,000 plus ₹2,01,667, being the amount of interest on loan taken for purchase of this plant and machinery from the date on which capital was borrowed till the date on which asset as first put to use shall be capitalized]	8,55,250	10,49,750	
	Additional depreciation on Plant & Machinery acquired on 1.5.2025 for ₹57,01,667 @20%		11,40,333	
				71,16,734
II	Capital Gains			
	Sale consideration		1,00,00,000	
	Less: Cost of acquisition		65,00,000	
	Long term capital gains		35,00,000	
	Less: Exemption u/s 54 [Since ₹35 lakhs is invested in construction of house within the stipulated time limit.]		35,00,000	
	Capital gain of ₹25 lakhs in capital gain account scheme is not taxable in P.Y. 2025-26, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹35 lakhs invested in construction of house is eligible for exemption u/s 54 against the long-term capital gain on sale of house property during the P.Y.2025-26]			-
III	Income from Other Sources			
	Interest on income-tax refund			3,850

Particulars	₹	₹	₹
Gross Total Income			71,20,584
<i>Less: Deduction under Chapter VI-A</i>			
Deduction under section 80C			
- Life insurance premium of his father [Not allowable as deduction, since not covered within the meaning of term “person” in case of an individual, though he is dependent on him]		Nil	
- Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether Dependent or not falls within the meaning of term “Person” and the premium does not exceed 10% of the ₹5,00,000, being the sum assured]		45,000	45,000
Total Income			70,75,584
Total Income (Rounded off)			70,75,580

Computation of tax payable by Mr. Shobhit for A.Y. 2026-27

Particulars	₹	₹
Tax at slab rate on income of ₹70,75,580		
Upto ₹2,50,000	Nil	
₹2,50,001 – ₹5,00,000 [@5% of ₹2.50 lakh]	12,500	
₹5,00,001 – ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	
₹10,00,001 - ₹70,75,580 [@ 30% of ₹60,75,580]	18,22,674	
		19,35,174
<i>Add: Surcharge @10%, since total income exceeds ₹50,00,000 but does not exceed ₹1 crore</i>		1,93,517
		21,28,691
<i>Add: Health and education cess@4%</i>		85,148
Tax liability		22,13,839
<i>Less: TDS u/s 194N @ 2% on ₹50 lakhs, being the cash withdrawals exceeding ₹1 crore</i>		1,00,000
Tax payable		21,13,839
Tax payable (Rounded off)		21,13,840

Solution 3:**Computation of total income of Mr. Vaibhav for A.Y. 2026-27 under normal provisions of the Act**

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account Add: Items of expenditure not allowable while computing business income		51,42,000	
	- Depreciation as per books of accounts	13,66,000		
	- Payment for professional services [Since the tax was deducted on time, but such tax has not been paid on or before the due date specified in section 139(1), ₹30,000 [₹1,00,000 x 30%] has to [₹1,00,000 x 30%] has to be disallowed in F.Y. 2025-26 under section 40(a)(ia) and has to be added back]	30,000		
	- Payment for renovation of office [Unreasonable payment made to brother for renovating his office has to be added back as per section 40A(2)]	1,00,000		
	- Payment to M/s Vishnu & Co, a micro enterprise, for purchase of raw material [Not Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was not within the time specified in the written agreement]	30,000		
	- Conversion of interest into loan [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted into loan shall be allowed as deduction only in the year in which the converted loan is actually paid.] Accordingly, only ₹30,000 shall be allowed as deduction in P.Y. 2025-26 [₹6 lakhs/20 installments]	5,70,000		
	- Payment received from sale of stock-in-trade converted from capital assets [Sale consideration - FMV as on date of conversion]	1,50,000	22,46,000	
			73,88,000	
	Less: Depreciation as income- tax Rules, 1962		12,00,000	61,88,000
	Capital Gains			
	Sale consideration			
	Less: Indexed cost of acquisition [₹1,80,000 x 348/240]		3,50,000	

Particulars		₹	₹	₹
	Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]		2,61,000	89,000
Gross Total Income				62,77,000
<i>Less:</i> Deduction under Chapter VI-A				
Deduction under section 80C				
- Investment in five-year deposit			1,50,000	
Deduction under section 80CCD(1B)				
- Contribution in NPS			50,000	
Deduction under section 80JJAA (See working note below)			17,28,000	19,28,000
Total Income				43,49,000

Computation of tax liability of Mr. Vaibhav for A.Y. 2026-27 under normal provisions of the Act

Particulars	₹	₹
Tax @20% on LTCG of ₹89,000 on sale of Sculptures [Since the property is transferred before 23.7.2024]		17,800
Tax at slab rate on balance income of ₹42,60,000		
Upto ₹2,50,000	Nil	
₹2,50,001 – ₹5,00,000 [@5% of ₹2.50 lakh]	12,500	
₹5,00,001 – ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	
₹10,00,001 - ₹42,60,000 [@ 30% of ₹32,60,000]	9,78,000	10,90,500
		11,08,300
<i>Add:</i> Health and education cess@4%		44,332
Tax liability		11,52,632
Tax liability (Rounded off)		11,52,630

Computation of adjusted total income and AMT of Mr. Vaibhav for A.Y. 2026-27

Particulars	₹	₹
Total Income		43,49,000
<i>Add:</i> Deduction under section 80JJAA		17,28,000
Adjusted Total Income		60,77,000
Alternate Minimum Tax @18.5%		11,24,245

Particulars	₹	₹
Add: Surcharge @10% since adjusted total income exceeds ₹50 lakhs but does not exceed ₹1 crore		1,12,425
		12,36,670
Add: Health and education cess@4%		49,467
Tax liability		12,86,137
Tax liability (Rounded off)		12,86,140

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@10% and cess@4%. Therefore, tax liability as per section 115JC is ₹12,86,140.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	12,86,140
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	11,52,630
	1,33,510

Working Note

Computation of Deduction under section 80JAA

Particulars	₹
Additional employee cost	17,28,000
= ₹24,000 × 12 × 20 = ₹57,60,000	
Deduction under section 80JAA = 30% of ₹57,60,000 Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 30 regular employees employed on 1.8.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹25,000. Therefore, only 20 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.	