

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

Questions:

Part-A Multiple Choice Questions

[Total 30 Marks]

Question: 1

Mr. Bandu, aged 37 years, provides the following details for P.Y. 2025-26 as follows:

Particulars	₹ in lakhs
Textile business income	22
Speculative business loss	(4)
Textile business loss b/f from P.Y. 2023-24	(5)
Business income of spouse included in the income of Mr. Bandu as per section 64(1)(iv)	2
Deductions available under Chapter VI-A	3
TDS	1
TCS	0.5
Advance tax paid	1.3

What shall be the net tax payable/(refundable) as per regular provisions of the Income-tax Act, 1961 for A.Y. 2026-27 for Mr. Bandu?

- (a) ₹ 24,200
- (b) (₹ 1,00,600)
- (c) ₹ 2,11,400
- (d) ₹ 12,500

Question: 2

Mr. Raj, aged 32 years, presents you the following data for A.Y. 2026-27:

Particulars	₹ in lakhs
Gross receipts from business conducted entirely through banking channels (opted for section 44AD)	70
Capital gains u/s 112A	5
Capital gains u/s 111A	3
Winnings from horse races	1

What would be the tax liability as per the regular provisions of the Income-tax Act, 1961 of Mr. Raj for the A.Y.2026-27?

- (a) ₹ 1,28,440
- (b) ₹ 1,05,560
- (c) ₹ 1,51,190
- (d) ₹ 1,45,080

Question: 3

Mr. X, who has opted out of the default tax regime u/s 115BAC and pays tax under the normal tax regime, can carry forward the AMT credit for

- (a) 8 assessment years
- (b) 10 assessment years
- (c) 12 assessment years
- (d) 15 assessment years

Question: 4

Mr. Uttam presents you the following data related to his tax liability for A.Y. 2026-27:

Particulars	₹ in lakhs
Tax Liability as per regular provisions of Income-tax Act, 1961	15
Tax Liability as per section 115JC	12
AMT credit brought forward from A.Y. 2025-26	5

What shall be the tax liability of Mr. Uttam for A.Y. 2026-27?

- (a) ₹ 12 lakhs
- (b) ₹ 15 lakhs
- (c) ₹ 10 lakhs
- (d) ₹ 7 lakhs

Case scenario 1

Mr. Narendra Sharma aged 54 years, an Indian citizen, carrying on retail business in Dubai. He frequently visits India for business purpose. Details of his visits in India are as follows:

- (1) Came to India on 03.12.2020 and left India on 26.04.2021
- (2) Again, came to India on 09.09.2023 and left India on 10.01.2024
- (3) Again, came to India on 27.12.2024 and left India on 20.02.2025

Afterwards he decided to shift permanently in India and closed his business in Dubai. So, he came to India on 27.11.2025 and joined Indian Company "Cosmos Heritage India Limited" at registered office in Mumbai from 01.12.2025.

From December 2025, he has taken a flat on rent for Rs. 60,000 per month from Mr. Sarthak, an Indian resident, and Mr. Sarthak has provided his PAN No. to Mr. Narendra Sharma.

Following details of his salary income earned in India:

- Basic Salary - Rs. 2,75,675 per month
- COLA (Cost of Living Allowance) (forms part of retirement benefits) - Rs. 1,20,200 per month
- HRA - Rs. 1,37,838 per month
- Other Allowances - Rs. 1,56,000 per month

For the period from April 2025 to November 2025, his business income arising in Dubai is Rs. 26,00,000 and his turnover for the P.Y. 2024-25 is Rs. 95,00,000. He is not liable to pay any tax in Dubai. He is active in equity share trading after coming to India. Following are the details of his portfolio:

S. No	Sale/ Purchase	Company	Date of Purchase/ Sale	Qty	Price per Share (Rs.)	Brokerage
1.	Purchase	First Smile Ltd	10.12.2025	250	203	1.5%
2	Purchase	Rainbow Ltd	10.12.2025	50	503	1.5%
3.	Purchase	Mega Service Ltd	12.12.2025	150	82	1.5%
4.	Sale	First Smile Ltd	18.12.2025	100	325	1.8%
5.	Purchase	Mega Service Ltd	15.12.2025	110	110	1.5%
6.	Sale	Mega Service Ltd	26.12.2025	150	100	1.8%
7.	Purchase	Rainbow Ltd	28.12.2025	200	385	1.5%
8.	Purchase	Rainbow Ltd	03.01.2026	100	465	1.5%
19.	Sale	First Smile Ltd	23.03.2026	150	250	1.8%
10.	Sale	Mega Service Ltd	26.03.2026	110	110	1.8%

Rainbow Limited declared an interim dividend of 200% on 28.02.2026 (face value of each share is Rs. 10). The record date was 31.1.2026.

He wants to exercise the option to shift out of the default tax regime u/s 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

Question: 5

What is the residential status of Mr. Narendra for the previous year 2025-26?

- (i) Resident
- (ii) Resident and ordinary resident
- (iii) Non-resident
- (iv) Deemed resident

Question: 6

Which of the following statements is correct, in respect of dividend paid by Rainbow Ltd. to Mr. Narendra?

- (i) Dividend received from Rainbow Ltd is exempt in the hands of Mr. Narendra. Hence, no tax is required to be deducted at source.
- (ii) Dividend received from Rainbow Ltd is taxable in the hands of Mr. Narendra but, since the dividend is less than Rs. 10,000, no tax is required to be deducted at source.
- (iii) Dividend received from Rainbow Ltd is taxable in the hands of Mr. Narendra. Tax of Rs. 525 is required to be deducted at source.
- (iv) Dividend received from Rainbow Ltd is taxable in the hands of Mr. Narendra. Tax of Rs. 700 is required to be deducted at source.

Question: 7

What shall be the TDS liability of Mr. Narendra for rent paid to Mr. Sarthak?

- (i) There is no TDS liability of Mr. Narendra, since he is a salaried individual.

- (ii) Mr. Narendra is liable to deduct TDS u/s 194I of Rs. 6,000 for each month.
- (iii) Mr. Narendra is liable to deduct TDS u/s 194-IB of Rs. 1,200 for each month
- (iv) Mr. Narendra is liable to deduct TDS u/s 194IB of R. 3,600 in the month of March 2026.

Question: 8

What would be income chargeable to tax under the head "Income from Salaries" in the hands of Mr. Narendra for the A.Y. 2026-27?

- (i) Rs. 26,27,202
- (ii) Rs. 26,77,202
- (iii) Rs. 27,08,852
- (iv) Rs. 26,58,852

Question: 9

What is the amount of short-term capital gain chargeable to tax in the hands of Mr. Narendra on sale of shares for the P.Y. 2025-26:

- (i) Rs. 20,202.20
- (ii) Rs. 21,950
- (iii) Rs. 19,474.25
- (iv) Rs. 19,074.95

Case Scenario

Mrs. Ritu is a retired Government employee. She was born on 01.04.1942 in India. She is residing in Delhi. She stayed with her elder son Mr. Nakul from 1st May, 2025 to 15th October, 2025, who is residing in Australia. She stayed in India for 361 days during the 4 previous years preceding the previous year 2025-26. During the previous year 2025-26, pension of ₹ 7,15,461 is credited in her account with State Bank of India, Uttam Nagar Branch, Delhi after deducting tax at source of ₹ 14,565. She received interest of ₹ 4,352 on her saving A/c with SBI during the previous year 2025-26. She also received interest of ₹ 75,000 on Fixed Deposits with Canara Bank in the month of April, 2025.

She has purchased two life insurance policies for her son Mr. Yuvaan and married daughter Mrs. Kajal, the details of which are as follows:

Person insured	Policy purchased on	Date of payment of premium	Sum Assured	Premium paid
Mr. Yuvaan (50 years old)	15.10.2021	23.10.2025	₹ 9,84,655	₹ 1,00,388
Mrs. Shobha (45 years old)	20.09.2021	25.09.2025	₹ 2,00,000	₹ 17,000

She has taken medical insurance for herself for which she paid an amount of ₹ 35,000 towards health insurance premium by A/c payee cheque. She incurred ₹ 7,500 towards preventive health check-up of herself and her husband in cash. She also incurred medical expenditure of ₹ 25,000 in cash in the month of January 2026 for her husband. In the month of March 2026, she incurred medical expenditure of ₹ 10,500 for herself, which is paid by account payee cheque. She has given a wristwatch of ₹ 10,000 on her husband's 85th birthday. Her husband is resident in India for the P.Y. 2025-26.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

Question: 10

What would be the amount of deduction under Chapter VI-A available to Mrs. Ritu for the A.Y. 2026-27?

- (a) ₹ 2,05,466
- (b) ₹ 2,08,466
- (c) ₹ 2,07,388
- (d) ₹ 2,18,466

Question: 11

What would be the Gross total income of Mrs. Ritu for the A.Y. 2026-27 under normal provisions of the Act?

- (a) ₹ 7,87,313
- (b) ₹ 8,04,878
- (c) ₹ 7,59,378
- (d) ₹ 8,09,378

Question: 12

What would be the total income of Mrs. Ritu for the A.Y. 2026-27, if she pays tax under section 115BAC?

- (a) ₹ 7,34,380
- (b) ₹ 8,01,880
- (c) ₹ 7,87,310
- (d) ₹ 8,09,380

Case Scenario

Manisha is a research scholar pursuing her PhD. She is unmarried and her parents are living in Ahmedabad, Gujarat. Her parental grandparents and other family relatives are staying in South Africa. She was in India with her parents till May 2021. After then, she went to London for further education. In October 2024, she returned to India. On 28th March 2025, she travelled out of India to Johannesburg, in South Africa, for her research project and Khadi business exhibitions. She returned on 1st October 2025 to participate in the 156th Birth Anniversary Celebrations of Mahatma Gandhi. In this connection, she attended numerous events held all over India, while also holding exhibitions for her textile business in 'Khadi - the fabric that breathes, the livery of freedom' - as showcased by Mahatma Gandhi. She won accolades and awards, gifts and donations in the course of showcasing her work. You have been provided with the following data in respect of her receipts and income for the F.Y. 2025-26

S. No.	Details	Amount (₹)
1.	Scholarship for pursuing her research work	4,80,000
2.	Gross receipts from exhibitions held in South Africa in collaboration with the leading Fashion House	10,00,000
3.	Gross receipts from exhibitions held in India	12,00,000
4.	Gross receipts from sale of Honey in the exhibitions in India	1,05,000
5.	Gross receipts from sale of Handmade Khadi designer fashion accessories and other Khadi stationery products	2,25,000
6.	Gift from father's sister whom she visited in Johannesburg, South Africa	51,000
7.	Cash gifts received from friends in 'Gandhi Gujarat Seva Samaj' with whom she stayed while in Johannesburg, South Africa.	27,000
8.	Received share of income from the HUF	22,000
9.	Cost of material for exhibitions held in South Africa and India - ₹ 12,00,000; Cost of Handmade Khadi designer fashion accessories and other Khadi stationery products - ₹ 1,00,000; Other eligible Business expenses - ₹ 4,00,000; Cost of Honey purchased for sale in the exhibitions in India - ₹ 55,000.	

10.	Mr. Patel of South Africa gave her a cheque of ₹ 5,00,000 favouring 'Gandhi Smarak Trust' as donation to the Trust. She was requested to hand over the cheque to the Trust's office at Ahmedabad.
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Notes:

1. Manisha does not manufacture any of the Khadi products. She sourced all the Khadi materials, accessories, products and honey from suppliers of such items.
2. All financial transactions are carried out in account payee cheques and TDS has been deducted, wherever applicable.
3. Her paternal grandfather is the Karta of the family HUF. Her paternal grandfather comes on visit in India for 6 months every year since 2015. The HUF is managed outside India and all decisions regarding the HUF are made outside India.
4. Manisha has opted out of the default tax regime under section 115BAC.

From the information given above, choose the most appropriate answer to the following questions –

Question: 13

What is the residential status of HUF for the A.Y. 2026-27?

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Deemed resident

Question: 14

Determine the taxability of gift received by Manisha from her father's sister and from her friends in 'Gandhi Gujarat Seva Samaj' for the A.Y. 2026-27?

- (a) ₹ 51,000 will be exempt as it is a gift received from a relative. ₹ 27,000 received as cash gifts from her friends would not be taxable as all her friends are non-residents.
- (b) ₹ 51,000 will be taxed as "Income from other sources" as father's sister is not a relative. ₹ 27,000 received as cash gifts from friends will also be taxable as the total gifts from non-relatives during the A.Y. 2026-27 exceeds ₹ 50,000.
- (c) ₹ 51,000 will be exempt as it is a gift received from a relative. ₹ 27,000 received as cash gifts from friends will be taxed as amount is paid in cash and is received from non-residents.
- (d) ₹ 51,000 will be exempt as it is a gift received from a relative. ₹ 27,000 received as cash gifts from friends will not be taxable as the total gifts received from non-relatives during the A.Y. 2026-27 does not exceed ₹ 50,000.

Question: 15

What would be the total income of Ms. Manisha for A.Y. 2026-27 if she wishes to maximize tax savings?

- (a) ₹ 12,55,000
- (b) ₹ 8,02,000
- (c) ₹ 1,51,800
- (d) ₹ 7,75,000

Part-B Descriptive Questions**[Total 45 Marks]****Question: 1**

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is ₹8 lakhs as on April 1, 2025. He prepares his accounts on accrual basis. The Statement of Profit and Loss for the previous year ended on March 31, 2026 shows a net profit of ₹9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- (i) Travelling expenses includes ₹2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which ₹40,000 is incurred in Indian currency and ₹2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.
- (ii) Administrative expenses include ₹9,525 paid towards interest on delay in deposit of GST.
- (iii) General expenses include a sum of ₹3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- (iv) Fire insurance premium of ₹66,000 for the entire building remained unpaid till 31st March, 2026.
- (v) Expenditure of ₹75,000, was paid to a scientific research association approved under section 35. Out of ₹75,000, ₹50,000 was utilised towards the purchase of land by the research association.
- (vi) He let out first floor of his commercial building to Mr. Aman on April 1, 2025 and received rent of ₹35,000 per month. Municipal taxes ₹20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of ₹10,000 (relating to ground floor) was debited to the statement of profit and loss.
- (vii) He sold a piece of land for ₹44 lakhs on 12th April, 2025. He had acquired the land for 40 lakhs on 1st January, 2024. The gain of 4,00,000 is credited to the statement of profit and loss.

Additional Information:

- (i) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹49,000 on March 10, 2026. However, the payment to M/s. Paul Industries was made on April 5, 2026 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid ₹1,34,000 in cash on April 5, 2026 for purchase of raw material on March 31, 2026. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- (ii) Mr. Raman acquired a registered trademark on July 15, 2025 for ₹2,00,000. Mr. Raman started using this trademark for his business from January 15, 2026. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- (iii) Mr. Raman bought a car for personal use on 12th April, 2022 for ₹5,40,000. He started using this car for business purposes from 01.04.2025. As on that day, the market value of the car was ₹2,10,000. Assume the rate of depreciation to be 15%.
- (iv) He incurred ₹2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2025.
- (v) He has paid tuition fees of ₹25,000 for the education of his daughter to a college.
- (vi) During the year, Mr. Raman has incurred ₹9,500 in cash for preventive health check-up where ₹5,000 was for himself and ₹4,500 was for his parents who are super senior citizens.
- (vii) Donation paid to a registered political party by way of cheque ₹20,000.

Compute the total income and tax payable for assessment year 2026-27 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act. Which option is advantageous to Mr. Raman?

[15 Marks]

Question: 2

Mr. Shobhit, a resident individual aged 54 years, engaged in the manufacture of spare parts of cars. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended 31.3.2026 shows a net profit of ₹57,25,000 after debiting/crediting the following:

- (i) During the year, Mr. Shobhit purchased plant and machinery for ₹55 lakhs for which he took loan from a scheduled bank. (Date of loan 1.5.2025 and rate of interest 11% p.a.). The asset was acquired on 1.7.2025 and put to use on 1.9.2025. The entire interest amount is debited to the profit and loss account.
- (ii) On 1.4.2025, the production manager working in the factory of Mr. Shobhit took voluntary retirement from the services. Mr. Shobhit paid him ₹8,00,000 as compensation for his services under the Voluntary Retirement Scheme.
- (iii) Mr. Shobhit purchased raw material from M/s Kamal & Sons, a micro enterprise, and M/s Hitesh & Sons, a medium enterprise, for ₹51,000 and ₹75,000, respectively on 15.3.2026. As per the written agreement with them, both the payment has to be made by 10.4.2026. Mr. Shobhit made the payment to M/s Kamal & Sons on 9.4.2026 and to M/s Hitesh & Sons on 15.11.2026.
- (iv) He contributed 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD which is debited to the profit and loss account. Basic salary of the employees aggregate to ₹10 lakhs and dearness allowance is 40% of basic salary and it forms part of retirement benefit.
- (v) Depreciation debited to profit and loss account is ₹27,50,000.
- (vi) He received ₹13,850 as income-tax refund out of which ₹3,850 is interest on refund. The entire amount is credited to profit and loss account.

Additional Information:

- (a) Mr. Shobhit purchased a new computer on 31st August, 2025 and was put to use on the same day in his office. The payment was made as under:
 ₹28,000 paid in cash at the time of purchase of new computer on 31/08/2025
 ₹25,000 paid by account payee cheque on 05/09/2025 as balance cost of new computer
- (b) WDV (as per the Income-tax Act, 1961) of different assets as on 1.4.2025:
 Plant and machinery ₹8,00,000;
 Factory Building ₹6,45,000
- (c) He paid ₹50,000 as life insurance premium taken on the life of his father who is dependent on him. The sum assured is ₹8,00,000 and the policy was taken on 1.4.2015.
- (d) He also paid ₹45,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹5,00,000 and the policy was taken on 1.4.2017.
- (e) On 1.10.2024, he withdrew ₹1.50 crores in cash from two current accounts maintained by him with PNB Bank of India. There are no other withdrawals during the year.
- (f) Mr. Shobhit had sold a house on 30th March, 2023 and deposited the long term capital gains of ₹25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st July, 2025, he sold another house property in which he resided for ₹1 crore. He earned a long-term capital gain of ₹35,00,000 on sale of this property. On 5th January, 2026, he withdrew the whole money out of his capital gain account and invested ₹60 lakhs on construction of a house in Mumbai. The construction of the house completed on 23rd March 2026.

You are required to compute the total income of Mr. Shobhit and also the tax payable by him after TDS/TCS credit, if any, for the A.Y. 2026-27 if he is opting out of the default tax regime.

[15 Marks]

Question: 3

Mr. Vaibhav, a resident individual aged 46 years, engaged in the business of plywood and sculptures, maintains his books of account under section 44AB. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended on 31.3.2026 shows a net profit of ₹51,42,000 after debiting/crediting the following:—

- (i) During the year, Mr. Vaibhav had taken professional services from a lawyer in relation to a business dispute. The legal fees was amounted to ₹1,00,000. Tax has been deducted on time but did not deposit it with the government within the due date. The TDS was later on deposited on 15th November 2026.
- (ii) Vaibhav had renovated his office by engaging in the services of his brother, as the existing office premises had become very old and required refurbishment. The total payment made for the renovation amounted to ₹2,50,000 which is reasonable to the extent of ₹1,50,000.
- (iii) He purchased goods worth ₹30,000 from Vishnu & Co., a micro enterprise, on March 01, 2026. According to the written agreement between them, the payment was to be made by 05th April 2026. However, he made payment to Vishnu & Co on 15th April 2026.
- (iv) Depreciation as per profit and loss account is ₹13,66,000.

Additional Information:

- (a) As per restructuring agreement with the bank, the bank has converted unpaid interest of ₹6,00,000 into a new loan account repayable in 20 equal annual installments. The first installment was paid in March 2026.
Vaibhav claimed the entire interest amount of ₹6,00,000 as an expense while computing his business income.
- (b) Depreciation as per Income-tax Rules, 1962 is ₹12,00,000.
- (c) He contributed ₹50,000 towards Tier I account of NPS during the year. Further, he has invested in five-year term deposit of ₹1.5 lakhs.
- (d) He employed 90 new employees during the P.Y. 2025-26, the details of whom are as follows:

No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
20	1.4.2024	Regular	24,000
25	1.5.2024	Casual	24,500
30	1.8.2024	Regular	26,000
15	1.9.2024	Casual	23,500

The regular employees participate in recognized provident fund while the casual employees do not.

- (e) Mr. Vaibhav had sculptures in the form of capital assets acquired in January 2015, for ₹1,80,000. Later on, in F.Y. 2023-24, he started sculpture business and converted these capital assets into stock-in-trade for his business. Fair market value at the time of conversion was ₹3,50,000. Subsequently, he sold the stock-in-trade on June 10, 2025, for ₹5,00,000. No entry has been made in books for conversion and sale of converted sculptures.

You are required to compute the total income and tax liability of Mr. Vaibhav for the A.Y. 2026-27 if he opts out of the default tax regime.

CII for F.Y. 2014-15: 240; F.Y. 2023-24: 348; F.Y. 2026-27: 376

[15 Marks]