



## INTERMEDIATE EXAMINATION

### MODEL ANSWERS

#### PAPER – 7

#### DIRECT AND INDIRECT TAXATION

SET - 2

TERM – JUNE 2025

SYLLABUS 2022

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

#### SECTION – A (Compulsory)

1) Choose the correct option:

[15x2=30]

- (i) Which of the following shall be considered as Financial Year 2024-25.?
- (a) Assessment Year for the P.Y. 2023-24 and previous year for the A.Y. 2024-25
  - (b) Assessment Year for the P.Y. 2023-24 and previous year for the A.Y. 2025-26
  - (c) Assessment Year for the previous year 2024-25
  - (d) Previous year for the assessment year 2024-25
- (ii) An individual purchased a Bullion on 01-11-2024 for ₹5,00,000 though fair market value of the asset is ₹5,25,000. Income taxable u/s 56(2)(x) is:
- (a) ₹25,000 i.e., difference between market value and actual consideration
  - (b) Nil as this is not gift
  - (c) Nil as difference between market value and actual consideration does not exceed ₹50,000
  - (d) The provision of sec. 56(2)(x) is not applicable for any transaction entered during P.Y. 2024-25
- (iii) What is the due date of filing the return of income in case of a company who is required to furnish a report in Form No. 3CEB under section 92E pertaining to international transaction(s)?
- (a) September 30 of the assessment year
  - (b) November 30 of the assessment year
  - (c) July 31 of the assessment year
  - (d) October 31 of the assessment year
- (iv) During the P.Y. 2024-25, Mr. Sambit, resident in India, has made the contribution to PPF for ₹1,50,000 and also paid insurance premium on the life of the spouse where policy taken on 01.04.2018 (Assured Value ₹2,20,000) for ₹25,000. What is the deduction allowable under section 80C for A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?
- (a) 1,72,000
  - (b) 1,50,000
  - (c) 1,75,000
  - (d) None of the above
- (v) On 1st June 2024, Mr. Rohit made three fixed deposits of ₹3,00,000 each for 9 months at an interest rate of 9% p.a. with the Park street, M.G Road and Central branches of HDDD Bank, which has adopted Core Banking System. The fixed deposits mature on 28th February 2025. Assuming Mr.



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Rohit has furnished his PAN, what would be the TDS implication under Section 194A for the financial year 2024–25?

- (a) No TDS, as interest earned from each branch is below ₹40,000
- (b) TDS of ₹6,075 is required to be deducted, as interest is aggregated across all branches
- (c) TDS of ₹2,025 per branch is not required since each branch operates independently
- (d) No TDS is required since the interest does not exceed ₹50,000

(vi) XYZ company engaged in the business of manufacturing & Bio-technology incurs (i) expenditure on scientific research towards land ₹10 lakhs and building ₹12 lakhs; (ii) other capital expenditures ₹8 lakhs and (iii) revenue expenditure of ₹5 lakhs. The quantum of deduction under Section 35 (2AB) shall be

- (a) Nil (as the company engaged in the business of manufacturing & Bio-technology)
- (b) ₹ 30 lakhs (100% of capital expenditure including cost of land & building)
- (c) ₹ 25 lakhs (100% of total expenditure other than cost of land)
- (d) ₹ 23 lakhs (100% of total expenditure other than cost of building)

(vii) In pre-GST regime, excise duty has been levied by ..... Government whereas VAT has been levied by ..... Government on goods.

- (a) State, Central
- (b) Central, Central
- (c) Central, State
- (d) State, State

(viii) M/s Smart Bazar, a store located and registered under GST in Gujarat, has come out with big discount offers at the time of Durga Puja on various gift items. In order to attract more customers, it has decided to supply a gift pack containing 5 packets of sugar free biscuits (500 gram each) taxable @12%, 1 packet of roasted almonds (250 gram) taxable @18%, 1 packet of chocolate (50 gram) taxable @28% and 1 bottle of mango juice (1 litre) taxable @18% in a single basket for a single price of ₹1,500. State the type of supply and the tax rate applicable on the same.

- (a) Composite supply; Tax rate of the principal item, i.e. sugar free biscuits @18%
- (b) Composite supply; highest tax rate out of all items, i.e. 28% applicable to chocolate
- (c) Mixed supply; tax rate of principal item, i.e. sugar free biscuits @18%
- (d) Mixed supply; highest tax rate out of all items, i.e. 28% applicable to chocolate

(ix) Which of the following can be issued by Government to exempt goods and/or services on which tax is leviable in exceptional cases?

- (a) Exemption Notification
- (b) Special order
- (c) Other notifications
- (d) None of the above



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- (x) The time of supply of goods, where supplier is liable to pay tax under forward charge shall be:
- (a) The date of actual issue of invoice by the supplier
  - (b) The last date on which he is required u/s 31(1) to issue the invoice with respect to the supply
  - (c) The date on which the supplier receives the payment with respect to the supply
  - (d) (a) or (b), whichever is earlier
- (xi) Levy of indirect tax on goods and services may leads to
- (a) Inflation
  - (b) Deflation
  - (c) Reflection
  - (d) None of the above
- (xii) A ship carries some goods K, L, M and N from Singapore to Dubai, via Chennai. L and M are moved at Chennai in another vessel. L being meant for Kochi and M to Dubai. As per customs law, the transhipped good(s) is/are:
- (a) All four
  - (b) L Only
  - (c) L and M
  - (d) None of the above
- (xiii) Basic custom duty on imported goods is levied at the rates specified in the
- (a) First Schedule of the Customs Tariff Act, 1975
  - (b) Second Schedule of the Customs Tariff Act, 1975
  - (c) Customs Act
  - (d) Customs Manual
- (xiv) Where the insurance amount is not available, for ascertaining the assessable value for customs duty, the percentage of FOB value to be taken is:
- (a) 1
  - (b) 1.125
  - (c) 1.5
  - (d) None of the above
- (xv) The Safeguard duty imposed shall be in force for a period of \_\_\_\_\_ from the date of its imposition and can be extended with the total period of levy not exceeding \_\_\_\_\_.
- (a) 4 years, 10 years
  - (b) 3 years, 5 years
  - (c) 5 years, 5 years
  - (d) None of the above

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i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv
b	c	b	b	b	c	c	d	b	d	a	c	a	b	a

**SECTION – B**

Answer any 5 questions out of 7 questions given. Each question carries 14 marks. [5 x 14 = 70]

- 2) (a) Mr. Bharat, an Indian citizen, left India for first time on 25.09.2024 for joining job in Tokyo. Determine the residential status of Bharat for the A.Y. 2025-26. [7]
- (b) Following are the particulars of income of Mrs. S. Choudhury for the Previous Year 2024-25:
- (a) Basic salary @ ₹15,000 per month.
  - (b) Dearness Allowance @ 60% of salary.
  - (c) Medical Allowance @ 600 per month (Actual expenditure ₹5,000).
  - (d) House Rent Allowance received @ ₹6,000 per month and she pays rent of ₹7,200 per month for her house in Durgapur.
  - (e) City compensatory allowance ₹1,500 per month.
  - (f) She owns a car which she is using for official purposes. Her employer reimburses her @ ₹3,000 per month.
  - (g) She is contributing ₹2,100 per month towards a recognized provident fund. The employer is also contributing the same amount. Interest credited to R.P.F @ 11% ₹2,200.
  - (h) She paid ₹1,800 as professional tax during the year.

Compute income from salary of Mrs. Choudhury for the assessment year 2025-26, if he opts for old regime. [7]

**Answer:****(a)**

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions –

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2024-25, Mr. Bharat, an Indian citizen, was in India for 178 days only (i.e., 30+31+30+31+31+25 days). Thereafter, he left India for employment purposes.



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Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2025-26.

(b)

#### Computation of Taxable Salary of Mrs. S Choudhury for the A.Y. 2025-26

Particulars	Working	Details	Amount	Amount
<b>Salaries</b>				
Basic				1,80,000
Allowances:				
Dearness allowance	60% of basic		1,08,000	
Medical Allowance			7,200	
City compensatory allowance			18,000	
House rent allowance		72,000		
Less: Exempted u/s 10(13A)				
Minimum of the following:				
a. Actual HRA	72,000			
b. 40% of (Basic + DA)	1,15,200			
c. Rent paid – 10% (Basic + DA)	57,600	57,600	14,400	1,47,600
Perquisites u/s 17(2):				
Car facility			-	-
Employer's contribution to RPF		25,200		
Less: Exempted u/s 10(12)	12% of (Basic + DA)	25,200	-	
Interest on RPF		2,200		
Less: Exempted	Upto 9%	1,800	400	400
<b>Gross Taxable Salary</b>				3,27,600
Less: Deduction u/s				
16(ia) Standard Deduction			50,000	
16(iii) Professional tax			1,800	51,800
<b>Net Taxable Salary</b>				2,75,800

3) (a) Compute net annual value with the following details for the A.Y. 2025-26 :

Particulars	H1	H2	H3	H4	H5	H6
<b>Situated at</b>	<b>Patna</b>	<b>Anand</b>	<b>Hyderabad</b>	<b>Balurghat</b>	<b>Jodhpur</b>	<b>Etawa</b>
<b>Municipal Value</b>	<b>₹1,00,000</b>	<b>₹ 2,00,000</b>	<b>₹ 3,00,000</b>	<b>₹4,00,000</b>	<b>₹4,25,000</b>	<b>₹6,00,000</b>
<b>Gross Annual Value</b>	<b>₹1,00,000</b>	<b>₹2,50,000</b>	<b>₹1,80,000</b>	<b>₹5,00,000</b>	<b>₹8,00,000</b>	<b>₹5,00,000</b>
<b>Municipal tax for P.Y.</b>	<b>₹5,000</b>	<b>10%</b>	<b>5%</b>	<b>20%</b>	<b>12%</b>	<b>10%</b>
<b>Sewerage tax</b>	<b>-</b>	<b>5%</b>	<b>₹1,000</b>	<b>3%</b>	<b>₹3,750</b>	<b>₹1,000</b>
<b>Water Tax</b>	<b>-</b>	<b>3%</b>	<b>5%</b>	<b>2%</b>	<b>5%</b>	<b>-</b>

Additional information:

a. In case of H3, municipal tax paid for the financial year 2000-01 to 2023-24 is ₹2,00,000.



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- b. In case of H4, municipal tax paid for the financial year 2025-26 is ₹3,000.
- c. In case of H6, all taxes charged by municipality are paid to the extent of 80% (50% by owner and 30% by tenant). [7]

- (b) Mr. Jofra, engaged in manufacture of Chemicals, furnishes the following particulars relating to its manufacturing unit at Kolkata, for the year ending 31-3-2025:

Particulars	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2024	30.00
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 21-9-2024	10.00
New machinery purchased on 21-12-2024	8.00
Computer purchased on 21-1-2025	4.00

#### Additional Information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 21-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 25-10-2023, for ₹10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- The depreciation rate for machinery and computer may be taken as 15% and 40% respectively.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2025 if -

- (i) he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (ii) he pays tax under the default tax regime under section 115BAC. [7]

#### Answer:

#### (a) Computation of Net Annual Value for A.Y. 2025-26:

(Amount in ₹)

Particulars	H1	H2	H3	H4	H5	H6
Gross Annual Value (a)	1,00,000	2,50,000	1,80,000	5,00,000	8,00,000	5,00,000
Less : (i) Municipal Tax	5,000	20,000	2,15,000 <sup>3</sup>	80,000 <sup>1</sup>	51,000	30,000 <sup>2</sup>
(ii) Sewerage tax	-	10,000	1,000	12,000	3,750	500 <sup>2</sup>
(iii) Water Tax	-	6,000	15,000	8,000	21,250	-
Total (b)	5,000	36,000	2,31,000	1,00,000	76,000	30,500
Net Annual Value [(a) – (b)]	95,000	2,14,000	(-) 51,000	4,00,000	7,24,000	4,69,500
Municipal tax is calculated on municipal value.						

#### Notes :

- Though municipal tax is allowed on cash basis (only if paid by owner) but advance municipal tax is not allowed.



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2. Municipal tax paid by tenant is not allowed as deduction.
3. ₹2,00,000 (being municipal tax of past years paid during the year) + 5% of ₹3,00,000 (municipal tax of current year paid during the year).

(b) Computation of written down value of block of assets of Jofra Ltd. as on 31.3.2025

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
Written down value (as on 31.3.2024)	30.00	Nil
<b>Less:</b> Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	
<b>Add:</b> Actual cost of new assets acquired during the Year		
New machinery purchased on 21.9.2024	10.00	-
New machinery purchased on 21.12.2024	8.00	-
Computer purchased on 21.1.2025	-	4.00
<b>Less:</b> Assets sold/discarded/destroyed during the year	Nil	Nil
<b>Written Down Value (as on 31.3.2025)</b>	<b>43.25</b>	<b>4.00</b>

i. If Mr. Jofra exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

#### Computation of Depreciation for A.Y. 2025-26

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
<b>I. Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation</b>		
<b>(A) Normal Depreciation:</b>		
WDV of plant and machinery (₹25.25 lakhs × 15%)	3.79	—
New Machinery purchased on 21.9.2024 (₹10 lakhs × 15%)	1.50	—
	<u>5.29</u>	<u>—</u>
<b>(B) Additional Depreciation:</b>		
New Machinery purchased on 21.9.2024 (₹10 lakhs × 20%)	2.00	



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Balance additional depreciation in respect of new machinery purchased on 25.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 ( $\text{₹}10 \text{ lakhs} \times 20\% \times 50\%$ ) [10% has already been allowed as put to use for less than 180 days in the previous year 2023–24; the remaining 10% shall be allowed in the immediately succeeding previous year, i.e., 2024–25]	1.00 <hr/> 3.00	— <hr/> — <hr/> —
<b>II. Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any</b>		
<b>(C) Normal Depreciation:</b> New machinery purchased on 21.12.2024 [ $\text{₹}8 \text{ lakhs} \times 7.5\%$ (i.e., 50% of 15%)] Computer purchased on 21.1.2025 [ $\text{₹}4 \text{ lakhs} \times 20\%$ (50% of 40%)] [Additional depreciation cannot be claimed as both assets have been installed at the office premises.]	0.60 — <hr/> 0.60	— 0.80 <hr/> 0.80
<b>Total Depreciation (A+B+C)</b>	<b>8.89</b>	<b>0.80</b>

#### ii. If Mr. Jofra pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
<b>I. Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation</b>		
<b>A. Normal Depreciation:</b> WDV of plant and machinery ( $\text{₹}25.25 \text{ lakhs} \times 15\%$ ) New Machinery purchased on 21.9.2024 ( $\text{₹}10 \text{ lakhs} \times 15\%$ )	3.79 1.50 <hr/> 5.29	— — <hr/> —
<b>II. Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation</b>		
<b>B. Normal Depreciation:</b> New machinery purchased on 21.12.2024 [ $\text{₹}8 \text{ lakhs} \times 7.5\%$ (i.e., 50% of 15%)] Computer purchased on 21.1.2025	0.60 — <hr/>	— 0.80





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[₹ 4 lakhs × 20% (50% of 40%)]	0.60	_____
		0.80
<b>Total Depreciation (A+B)</b>	<b>5.89</b>	<b>0.80</b>

- 4) (a) Sunil has a house property acquired on 7/07/1995 for ₹3,00,000. He incurred improvement expenditure on such property ₹70,000 on 16/08/2000 and ₹50,000 on 17/07/2010. Market value of such property as on 1/04/2001 is ₹4,50,000. On 16/08/2020, such property is compulsorily acquired by the Government and compensation decided at ₹21,50,000. 20% of the compensation received on 31/03/2025 and balance on 2/06/2025.

On further appeal, on 16/08/2025 enhanced compensation is declared by the Government ₹2,00,000. Expenditure incurred to get enhanced compensation is ₹11,000. Such compensation is received on 18/08/2026. Compute income under the head Capital Gains of Sunil for the assessment year 2025-26, 2026-27 and 2027-28. [7]

- (b) Mrs. Rajani who draws salary of ₹18,000 p.m. received the following gifts during the previous Year 2024-25.

1. Gift of ₹75,000/- from her sister-in-law.
2. Gift of ₹21,000 from her husband's friend on 01.02.2025.
3. Gift of ₹51,000/- each received from her two friend on the occasion of her marriage.
4. Gift of jewellery worth ₹3,00,000/- on 01.08.2024 from her fiancée.
5. Gift of ₹51,000 on 01.12.2024 from her father's sister.
6. Gift of ₹11,000 on 01.06.2024 from her brother's father-in-law.
7. Gift of ₹1,50,000 on 01.07.2024 from her close friend.

Compute her Gross Total Income for A.Y. 2025-26. Assume assessee opt out from default tax regime u/s 115BAC. [7]

Answer:

(a)

Computation of capital gains of Sunil for the A.Y. 2025-26

Particulars	Working	Details	Amount
Sale consideration			21,50,000 <sup>1</sup>
Less: Expenses on transfer			Nil
Net sale consideration			21,50,000
Less: i) Indexed cost of acquisition	₹ 4,50,000 <sup>2</sup> × 301 <sup>4</sup> /100	13,54,500	
ii) Indexed cost of improvement <sup>3</sup>	₹ 50,000 × 301 <sup>4</sup> /167	90,120	14,44,620
<b>Long Term Capital Gain</b>			<b>7,05,380</b>

Notes:

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1. The initial compensation (i.e. ₹ 11,50,000) decided by the Government shall be treated as sale consideration.
2. Cost of acquisition is the original cost of acquisition (i.e. ₹ 3,00,000) or Fair market value as on 1/04/2001 (i.e. ₹ 4,50,000) whichever is higher.
3. Cost of improvement incurred before 1/04/2001 is to be completely ignored.
4. Though the property was compulsorily acquired by the Government in the P.Y 2020-21 but the compensation was received in the P.Y.2024-25, therefore the amount shall be taxable in the P.Y. 2024-25, however indexation benefit shall be available till the previous year 2020-21 as transfer has taken place before 23-07-2024.

**Computation of capital gains of Mr. Sunil for the A.Y. 2026-27:** As the assessee has not received enhanced compensation during the P.Y.2025-26, hence nothing shall be taxable in the A.Y. 2026-27.

**Computation of capital gains of Mr. Sunil for the A.Y. 2027-28**

Particulars	Working	Details	Amount
Sale consideration	Enhanced Compensation		2,00,000
Less: Expenses on transfer			11,000
Net sale consideration			1,89,000
Less: i) Indexed cost of acquisition		Nil	Nil
ii) Indexed cost of improvement		Nil	Nil
<b>Long Term Capital Gain</b>			<b>1,89,000</b>

In case of enhanced compensation, the cost of acquisition shall be taken as nil and the nature of capital gain shall be same as that of initial compensation.

**(b) Computation of Gross Total Income of Mrs. Rajani for A.Y.2025-26**

Particulars	Amount (₹)	Amount (₹)
<b>Income from Salary:</b>		
Salary (₹18,000×12) Less Standard Deduction u/s 16 (₹ 50,000)		1,66,000
<b>Income From Other Sources:</b>		
Gift from her sister-in-law (husband's sister is exempt as the donor is covered in the definition of 'relative')	Nil	
Gift from her husband's friend is taxable	21,000	
Gift received from her two friends are exempt as it's received on the occasion of her marriage	Nil	
Gift of jewellery is taxable as jewellery is included in the definition of property u/s 56(2)(x) & FMV exceeds ₹50,000	3,00,000	
Gift from her father's sister is exempt as the donor is covered in the definition of "relative"	Nil	



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Gift from her brother's father-in-law is taxable as the donor is not covered in the definition of "relative"	11,000	
Cash gift from her close friend is taxable	1,50,000	4,82,000
<b>Gross Total Income</b>		<b>6,48,000</b>

5) (a) P, Q and R are partners in a firm sharing profits and losses in the ratio of 1:1:2, provide the following information. Compute firm's net income assuming that salary and interest are not paid to partners:

- Net income of the firm in assessment year 2024-25 is (-) ₹1,20,000, out of which unadjusted depreciation is ₹40,000.
- On 31.05.2024, R retires from the firm and the other partners carry on the same business.
- The firm's income for the Assessment Year 2025-26 before adjusting the aforesaid loss and depreciation is ₹1,20,000. [7]

(b) Compute the tax liability of Mr. Ratan under the old tax regime, who is a handicapped, for the A.Y.2025-26:

Particulars	Amount (₹)
Net salary	2,85,000
Annual value of let-out house property	60,000
Lottery income	50,000
Taxable business & profession income	50,000
He paid LIC premium	10,000
Mr. Ratan deposited in LIC annuity plan ₹ 12,000 & paid medical insurance premium ₹ 5,000.	

[7]

**Answer:**

- (a) Where a change occurs in the constitution of firm, on account of retirement or death of a partner, the proportionate loss of the retired or deceased partner shall not be carried forward. However, this section shall not apply in case of unabsorbed depreciation. Accordingly,

Computation of total income for A.Y. 2025-26

Particulars	Details	Amount	Amount
Income before adjusting brought forward loss and depreciation			1,20,000
Less: Brought forward loss (excluding unabsorbed depreciation)	80,000		
Less: Loss which cannot be set off (Working)	30,000	50,000	
Less: Unabsorbed depreciation		40,000	90,000
<b>Total Income</b>			<b>30,000</b>

**Working:** Computation of share of R in brought forward loss and loss which cannot be set off

Particulars	Amount
Total unabsorbed brought forward loss	1,20,000
Less: Unabsorbed depreciation	40,000



# INTERMEDIATE EXAMINATION

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#### DIRECT AND INDIRECT TAXATION

Brought forward loss excluding depreciation	80,000
Share of R in aforesaid loss $[(\text{₹ } 80,000 / 4) * 2]$	40,000
Less: Share of R in current profit before adjusting brought forward loss & depreciation $[(\text{₹ } 1,20,000 / 12 * 2) * 2 / 4]$	10,000
<b>Loss which cannot be set-off</b>	<b>30,000</b>

(b)

#### Computation of Total Income of Mr. Ratan for the A.Y. 2025-26

Particulars	Details	Amount
<b>Salaries</b>		
Net salary		2,85,000
<b>Income from house property</b>		
Annual value of let-out house property	60,000	
Less: Standard deduction u/s 24(a)	18,000	42,000
<b>Profits &amp; gains of business or profession</b>		50,000
<b>Income from other sources</b>		
Lottery income		50,000
<b>Gross Total Income</b>		<b>4,27,000</b>
Less: Deduction u/s		
80C (LIC Premium)	10,000	
80CCC (Deposit in LIC annuity plan)	12,000	
80D (Medical insurance premium paid)	5,000	
80U (Assessee is handicapped)	75,000	1,02,000
<b>Total Income</b>		<b>3,25,000</b>

#### Computation of Tax liability of Mr. Ratan for the A.Y. 2025-26

Particulars	Rate	On	Details	Amount
<b>Casual income</b> (Note) ₹ 50,000	30%			15,000
<b>Other Income</b> (Note)				
Upto ₹2,50,000	-			
From ₹2,50,001 to ₹ 2,75,000	5%	25,000	1,250	1,250
Tax Liability				16,250
Less: Rebate u/s 87A				12,500
				3,750
Add: Health & Education cess	4% of ₹ 3,750			150
Tax and cess payable				3,900

**Note:** Taxable income can be divided as follows:

- Casual income ₹50,000 on which tax @ 30% is applicable, and
- Income other than casual income ₹2,75,000 (being ₹3,25,000 – ₹50,000) on which slab is applicable.



## INTERMEDIATE EXAMINATION

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### DIRECT AND INDIRECT TAXATION

- 6) (a) Discuss the difficulties in pre-GST regime in the context of indirect taxes, which were removed with the introduction of GST. [7]
- (b) Discuss about the members of the GST Council? Also discuss any five recommendations that can be made by the GST Council. [7]

#### Answer:

(a) **Difficulties and limitations in pre-GST regime**

- (i) In pre-GST regime, Indian indirect tax was highly fragmented. Centre and States were separately taxing the goods and services. There were many taxes like excise duty, service tax, VAT, CST, purchase tax, entertainment tax, octroi.
- (ii) In addition, there was multiplicity of rates, laws and procedures. This caused heavy compliance burden.
- (iii) Imposition of tax on tax was another serious problem. For example, VAT was levied on value that included excise duty.
- (iv) Input tax credit chain broke as goods moved from one State to another, resulting in hidden cost for their business.
- (v) Further, pre-GST, there were tax nakas at every inter-state border, creating bottlenecks in inter-state transport of goods.
- (vi) As a result, logistics sector remained inefficient and it adversely affected the businesses.
- (vii) Every State was effectively a distinct market for the industry as well as consumer.
- (viii) Industry's choice of locating factories or warehouses was heavily influenced by the prevailing tax regime than pure business consideration.

To curb all these, Goods and Services Tax (GST) was introduced in the system with the idea of One Nation One Tax.

(b) **Members of the GST Council**

The GST Council shall consist of the following members, namely: -

- (a) The Union Finance Minister is the Chairperson;
- (b) The Union Minister of State, in-charge of Revenue of finance is the member;
- (c) The Minister In-charge of finance or taxation or any other Minister nominated by each State Government are the members.

**The recommendations that can be made by GST Council are as under: -**

- (i) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;
- (ii) the goods and services that may be subjected to, or exempted from the goods and services tax;
- (iii) model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;
- (iv) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;
- (v) the rates including floor rates with bands of goods and services tax;

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- (vi) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;
- (vii) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and any other matter relating to the goods and services tax, as the Council may decide.

- 7) (a) Mr. Ritesh of Assam, provides the following information for the preceding financial year 2023-24. You are required to calculate the aggregate turnover for the purpose of eligibility of composition levy scheme and determine whether he is eligible for composition levy scheme or not, for the F.Y. 2024-25.

Particulars	₹ in lakh
Value of taxable outward supplies (out of above, ₹ 10 lakh was in course of interstate transactions)	75.00
Value of exempt supplies (which include ₹ 30 lakh received as interest on loans & advances)	70.00
Value of inward supplies on which he is liable to pay tax under reverse charge	15.00
Value of exports	7.00

All the amounts are exclusive of GST. Further, he assured that in F.Y. 2023-24, no inter-State supply will be executed by him. [7]

- (b) Y Ltd., Mumbai, a registered supplier, is manufacturing Chocolates and Biscuits. It provides the following details of taxable inter-state supply made by it for the month of October, 2024.

Particulars	₹
List price of goods supplied inter-state	12,40,000
Items already adjusted in the list price:	
Subsidy from Central Government for supply of biscuits to Government School	1,50,000
Subsidy from Trade Association for supply of quality biscuits	50,000
Items not adjusted in the list price:	
Tax levied by Municipal Authority	25,000
Packing Charges	20,000
Late fee paid by the recipient of supply for delayed payment of invoice	5,000

Calculate the value of taxable supply made by Y Ltd. for the month of October, 2024. [7]

**Answer:**

(a)

Computation of aggregate turnover of Mr. Ritesh for F.Y. 2023-24 for the purpose of eligibility of composition levy scheme:

Particulars	₹ in lakh
Value of taxable outward supplies [All taxable supplies including inter-State supplies]	75

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Value of exempt supplies [excluding value of supply of services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount]	40
Value of inward supplies on which Mr. Ritesh is liable to pay tax under reverse charge	Nil
Value of exports	7
<b>Aggregate turnover for determining eligibility for composition scheme</b>	<b>122</b>

A registered person of Assam is eligible to opt for composition levy if his aggregate turnover does not exceed ₹ 1.5 crore in the preceding financial year. Therefore, in the given case, Mr. Ritesh is eligible to opt for composition levy for F.Y. 2024-25.

(b) Computation of value of taxable supply:

Particulars	₹
List price of goods supplied inter-state	12,40,000
Subsidy from Central Government for supply of biscuits to Government School	-
Subsidy from Trade Association for supply of quality biscuits	50,000
Tax levied by Municipal Authority	25,000
Packing Charges	20,000
Late fee paid by the recipient of supply for delayed payment of invoice	5,000
<b>Value of taxable supply</b>	<b>13,40,000</b>

8. (a) BA Pvt. Ltd. purchased machinery worth ₹ 10,00,000 (excluding GST) on 20-07-2024 on which it paid GST @ 18% and availed the ITC. On 05-03-2025, it sold the machinery for ₹8,00,000 (excluding GST) to HA Pvt. Ltd. The GST rate on sale is 18%. What will be the course of action for BA Pvt. Ltd. to follow under CGST Act, 2017?

[7]

- (b) Malya Internationals Ltd., has imported a machinery by air from Germany. Bill of Entry is presented on 20.01.2025. However, entry inwards is granted on 25.01.2025. Relevant information of the transaction are provided hereunder:

CIF Value of Machine	5,500 USD
Air Freight Paid	1250 USD
Insurance Charges Paid	100 USD
Rate of Exchange on 20.01.2025	As per RBI 1 USD = ₹85.50 As per CBIC 1 USD = ₹ 86
Rate of Exchange on 25.01.2025	As per RBI 1 USD = ₹86.50 As per CBIC 1 USD = ₹ 87
Basic Customs Duty Rate	10%
IGST Rate	18%

Calculate the assessable value in INR for the purposes of levy of customs duty as well as total customs duty.

**INTERMEDIATE EXAMINATION****SET - 2****MODEL ANSWERS****TERM – JUNE 2025****PAPER – 7****SYLLABUS 2022****DIRECT AND INDIRECT TAXATION****[7]****Answer:**

(a) Where capital goods or plant and machinery on which input tax credit (ITC) has been taken are supplied outward by a registered person, he must pay an amount that is higher of the following:

- ITC taken on such goods reduced by 5% per quarter of a year or part thereof from the date of issue of invoice for such goods; or
- tax on transaction value.

Accordingly, the amount payable on supply of machinery by BA Pvt. Ltd. shall be computed as follows:

Particulars	₹
ITC taken on acquisition of such machine [ $₹ 10,00,000 \times 18\%$ ]	1,80,000
Time gap in quarters between date of purchase and outward supply of such machine	3 quarters
Total reduction in tax paid [5% for each quarter $\times$ 3 quarter]	15%
Amount of reduction in tax paid [ $₹ 1,80,000 \times 15\%$ ]	27,000
<b>Amount of GST to be Paid [being higher of the following]</b>	
a. $₹ 1,80,000 - ₹ 27,000$	1,53,000
b. GST on transaction value [ $₹ 8,00,000 \times 18\%$ ]	1,44,000
<b>Hence, liability of GST is</b>	<b>1,53,000</b>

(b) **Computation of assessable value and customs duty:**

Particulars	Amount in \$
CIF Value	5,500
Less: Air Freight	1,250
Less: Insurance Cost	100
<b>FOB Value</b>	<b>4,150</b>
Add: Air Freight [Since actual air freight is more than 20% of FOB, 20% of FOB shall be considered ( $4150 \times 20\% = 830$ )]	830
Add: Insurance	100
<b>Assessable Value (in US \$)</b>	<b>5,080</b>
<b>Assessable Value in ₹</b>	<b>4,36,880</b>

**Computation of customs duty:**

Particulars	Details	Amount
Assessable Value	4,36,880	
Add: Basic Customs Duty @ 10%	43,688	43,688
Add: Social Welfare Surcharge @ 10% on BCD	4,369	4,369
<b>Total [A]</b>	<b>4,84,937</b>	
Add: IGST @ 18% [ $A \times 18\%$ ]	87,289	87,289
<b>Total duty payable</b>		<b>1,35,346</b>