

Model Questions for ITO Exam, 2020
Profits & Gains of Business / Profession

1. If employer takes keyman insurance policy in the name of any of the employees and premium is paid by the employer. Which of the following is correct w.r.t the amount received on maturity?

- (i) If it is received by the employer, the same shall be considered to be income of employer as per section 28.
 (ii) If it is received by the employee, it will be considered to be income under the head Salary.
 (iii) If it is received by the employer, the same shall be exempt from tax.
 (iv) If it is received by the employee, the same shall be exempt from tax.
 (A) (i) and (ii) are correct (B) (iii) and (iv) are correct
 (C) (i) and (iv) are correct (D) (ii) and (iii) are correct

2. If a person has received payment from any other person for not pursuing any business activity or profession i.e. payment has been received for closing down the business, it will be
 (A) exempt from tax (being capital receipt) (B) taxable under Other Sources
 (C) taxable under the head Business / Profession (D) exempt upto Rs.2,50,000.

3. Match the following to their respective rate of depreciation -

P.	MOTOR CAR RUNNING ON HIRE	1.	15%
Q.	BUILDING (residential)	2.	25%
R.	PLANT & MACHINERY	3.	30%
S.	INTANGIBLE ASSETS	4.	5%

Select the correct answer from the options given below:

	P.	Q.	R.	S.
(A)	2	1	4	3
(B)	3	1	2	4
(C)	3	4	1	2
(D)	2	4	3	1

4. Ms.S, Manager of M/s. ABC Ltd. since 2007 was terminated by the company on 9th August, 2018 by paying a compensation of Rs. 3 crores. Such compensation is ---

- (A) Chargeable under the Wealth-tax Act, 1957 (B) Not chargeable to Income-tax
 (C) Chargeable under section 17(3)(i) (D) Chargeable under section 28(ii) (a).

5. Share of profit received by a partner from the partnership firm, in hands of partner, is

- (A) taxable under the head PGBP (B) taxable under the head Other Sources
 (C) taxable under the head Salary (D) Exempt

6. Capital expenditure spent by a company for promoting family planning among the employees

- (A) not allowable (B) allowable (C) 1/5th will be allowed (D) 50% will be allowed

7. In the case of an assessee who had a power generating unit and had opted for SLM for claiming depreciation on such asset. Subsequently when the asset is sold, which of the following would be correct?

- (i) If the selling price is less than its WDV, the difference between the S.P. and the WDV shall be the terminal depreciation and shall be allowed as expenditure.
 (ii) If the S.P. is more than its WDV but not more than the actual cost of the asset, the difference between the S.P. and the WDV shall be the balancing charge and taxable as income under PGBP u/s 41 (2).

(iii) If the S.P. is more than its WDV and also more than the actual cost of the asset, the difference between the S.P. and the WDV shall be the balancing charge and taxable as income under PGBP u/s 41 (2).

(iv) If the S.P. is more than its WDV and also more than the actual cost of the asset, the difference between the actual and the WDV shall be the balancing charge and taxable as income under PGBP u/s 41 (2) and the difference between the S.P. and the actual cost shall be taxable as capital gains u/s 50A.

- (A) (i),(ii) and (iii) are correct (B) (i), (ii) and (iv) are correct
(C) (ii) and (iv) are correct (D) (ii) and (iii) are correct

8. As per which of the following section, deduction is allowed for expenditure of capital in nature incurred on acquisition of patent rights or copy rights?

- (A) 33ABA (B) 35A (C) 35AD (D) 35B

9. Section 37 does not allow deduction in respect of all expenditure

- (A) Which are incurred wholly and exclusively for the purpose of the business.
(B) Which are of revenue nature.
(C) Which are advertisements in souvenir of a political party.
(D) Which is not prohibited by law.

10. Section 35D does not permit amortization of

- (A) Legal charges for the drafting of agreement between the assessee and any other person for any purpose relating to the setting up of new business of the assessee.
(B) Any item of expenditure eligible for deduction under any other provision of the IT Act.
(C) Any expenditure in connection with preparation of project or feasibility report.
(D) Any expenditure in connection with the market survey or engineering services relating to the business of the assessee.

11. Which of the following expenses in respect of repairs and insurance of machinery used for the purpose of business is not explicitly allowed u/s 31?

- (A) The amount paid on account of current repairs
(B) The amount paid on account of maintenance
(C) The amount of any premium paid in respect of insurance against risk of damage
(D) The amount of any premium paid in respect of insurance against risk of destruction.

12. Benefit of presumptive taxation under the Income-tax Act, 1961 would not be available to Mr. G (non-resident)for, in respect of the related Indian income, if he is engaged in the business of -

- (A) Operation of Ships(B) Operation of Aircrafts
(C) Civil Construction in connection with an approved turnkey project
(D) Plying, hiring or leasing of goods carriages.

13. Section 44AA requires maintenance of accounts by certain persons carrying on profession or business. Which of the profession is not specifically listed in the said section but has been notified by the CBDT -

- (A) Legal. (B) Medical. (C) Film artist. (D) Technical consultancy.

14. U/s 43CB, what is the duration of a contract for providing services where profits and gains of such contract shall be determined on the basis of project completion method?

- (A) 60 days (B) 90 days (C) 180 days (D) 365 days

15. While computing the actual cost of any asset falling within a block, direct costs attributable to bring asset to its present location and working condition for its intended use (i.e. expenses incurred for acquiring the asset e.g. - freight, insurance, loading and handling etc. and expenses incurred in connection with the installation of the asset.) shall
(A) be added to the purchase price (B) not be allowable
(C) be subtracted from the purchase price (D) be claimed as revenue expenditure.

16. An assessee is not entitled for deduction under section 36 of the IT Act for
(A) Bonus paid to employees
(B) Any sum received from employees u/s 2(24)(x) and credited to employees a/c in time
(C) Interest paid on funds borrowed to pay income tax
(D) Premium paid to approved health insurance of employees

17. The word 'plant' has been defined in section 43(3) to include which of the following?
(A) Livestock (B) Books (C) Trees (D) Tea bushes

18. Omega Industries acquired a factory building for in November, 2018. The value of land underneath the building was Rs. 10 lakhs and value of building was Rs.5 lakhs. The amount of eligible depreciation allowable for assessment year 2019-20 is —
(A) Rs. 1,50,000 (B) Rs. 25,000 (C) Rs. 75,000 (D) Rs.50,000

19. Deemed profits chargeable to tax under section 41 includes:
(A) Taxability of Balancing Charge in case of Power Generating Undertakings
(B) Recovery of bad debts.
(C) Sale of an asset used for scientific research. without having been used for the purposes of business or profession. (D) All of the above.

20. U/s40A(3) which of the following payment for an expenditure incurred would not be admissible as deduction from business income?
(A) Rs.32,500 paid in cash to a transporter
(B) Rs.8,000 paid in cash to a dealer in the morning and Rs.9,000 paid in cash to the same dealer in the evening
(C) Rs.50,000 sent through NEFT to the bank account of the dealer for goods purchased
(D) Rs.9,900 paid through bearer cheque to the dealer for goods purchased.

21. Interest on capital to partners can be allowed
(A) only if provided in the partnership deed (B) maximum of 12% p.a.only
(C) must relate to the period (D) all of the above.

22. When a cash payment of Rs.18,000 is made on P.Y.2018-19 towards purchase of raw material effected in the earlier year, the amount of disallowance u/s 40A(3A) would be -
(A) Nil (B) 30% of such payment (C) 100% of payment (D) 20% of such payment

23. Which of the following persons are eligible to declare income u/s 44AD?
1. Resident Individual 2. Resident HUF 3. Resident Firm 4. L.L.P.
(A) 1, 2 and 3 only (B) 2 and 3 only (C) 1 and 2 only (D) All the 4

24. U/s 44AE, the rate per month or part of the month relevant for A.Y. 2019-20 and the maximum number, at any time during the year, specified under the section are-
(A) Rs.7,500 for each goods carriage and not more than 10 goods carriages respectively
(B) Rs.7,500 for each goods carriage and less than 10 goods carriages respectively
(C) Rs.1,000 per goods carriage and not more than 10 goods carriages respectively

(D) Rs.1,000 per ton of gross vehicle weight for heavy goods vehicle &Rs.7,500 for other goods vehicle and not more than 10 goods carriages respectively.

25. The book profit of a partnership firm isRs.1,00,000. The actual remuneration paidto working partners is Rs.2,45,000. Theallowable deduction under section 40(b)towards remuneration to partners is —

- (A) Rs.90,000 (B) Rs.1,50,000 (C)Rs.2,45,000 (D)Rs.1,00,000

26. What is the amount of deduction u/s 33AB in relation to Tea, Coffee and Rubber development account?

- (A) 20% of profits of such business. (B) 60% of profits of such business.
(C) 40% of profits of such business. (D) 100% of profits of such business.

27. ABCPvt. Ltd. having total turnover of Rs. 125 lacs for the FY 2018-19. The company

- (A) can avail benefit u/s 44AD (B) is required to get its books audited u/s 44AB
(C) is not required to get its books audited u/s 44AB but has to maintain books of accounts
(D) is not required to maintain books of accounts

28. Nandhu transferred his land (stock-in-trade) for Rs.75,00,000on 13th August, 2018. However, the value adopted by State Government authority for the purpose of payment of stamp duty in respect of such transfer was Rs.72,00,000. What shall be the full value of the consideration for the purposes of computing profits and gains from transfer of such asset?

- (A) Rs. 72,00,000 (B) Rs.75,00,000 (C) Rs.3,00,000 (D) Rs. 1,47,00,000

29. Where the total turnover of an assessee eligible for presumptive taxation u/s 44AD is received entirely by account payee cheque during the previous year 2018-19, the specified rate of presumptive business income is ___ % of total turnover

- (A) 5 (B) 6 (C) 7 (D) 8

30. Which of the following assesseees are not eligible to declare income u/s 44AD?

1. Assessee carrying on profession as referred to in section 44AA(1)
 2. Assessee earning income in the nature of commission or brokerage
 3. Assessee carrying on any agency business
 4. Assessee engaged in the business of plying, hiring, or leasing goods carriages.
- (A) 1, 2 and 3 only (B) 2 and 3 only (C) 1 and 2 only (D) All the 4

31. When we apply the provision of section 43CA, if the stamp duty value is less than value determined by the valuation officer

- (A) Actual value of consideration should be taken
(B) Stamp duty value should be taken
(C) Value determined by valuation officer should be taken
(D) The A.O. can take any value of his choice.

32. Which of the following is correct, when an assessee declares income u/s 44AD?

- (1) No further expenditure is to be deducted;
 - (2) Theassessee is not liable for payment of advance tax;
 - (3) Theassessee can provide depreciation to the assets of the business and can show WDV of the assets in the balance sheet accordingly.
- (A) 1 and 2 only (B) 1 and 3 only (C) 2 and 3 only (D) All the 3

33. Which amongst the following are specified books of account?

- (A) Cash Book & Ledger (B) Original bills issued exceeding Rs.50

(C) Carbon copies or counterfoils of bills exceeding Rs.25 (D) All of the above

34. Additional depreciation u/s32(1)(ia) shall not be allowed in respect of which of the following Plant & Machinery?

- (i) Second hand P & M (ii) Any P & M installed in any office premises
(iii) Any office appliances or road transport vehicles or ships or aircrafts.
(iv) Any P & M, the actual cost of which has been debited to profit and loss account.
(A) (i), (ii) and (iii) are correct (B) (i), (iii) and (iv) are correct
(C) (i), (ii) and (iv) are correct (D) All are correct

35. Block of assets means

- (A) group of assets falling within a class of assets comprising moveable and immoveable assets in respect of which same percentage of depreciation is prescribed.
(B) group of assets falling within a class of assets comprising fixed and current in respect of which same percentage of depreciation is prescribed.
(C) group of assets falling within a class of assets comprising tangible and intangible assets in respect of which same percentage of depreciation is prescribed.
(D) group of assets falling within a class of assets comprising liquid and illiquid assets in respect of which same percentage of depreciation is prescribed.

36. In relation to a capital asset being 'Goodwill' of a business, which of the following statements is/are true?

- (i) The cost of acquisition of goodwill is always nil
(ii) The cost of improvement of goodwill is always nil
(iii) The cost of improvement of goodwill is to be computed taking into consideration the facts and circumstances of each case.
(A) (i) and (iii) are correct (B) (i) and (ii) are correct
(C) Only (ii) is correct (D) Only (i) is correct

37. ABC Ltd. paid Rs.1,00,000 on 24th December 2019 to Ms. K as employee bonus for services rendered during the P.Y.2018-19.. The amount of disallowance for A.Y. 2019-20 is
(A) Rs.30,000 (B) Rs.1,00,000 (C) Rs.33,333 (D) Nil

38. Mr. Z acquires an asset which was previously used for scientific research for Rs.12,00,000. Deduction u/s 35(1)(iv) was claimed in the P.Y.2016-17. The asset was brought into use for the business of Mr. Z after the research was completed. The actual cost of the asset to be included in the block of assets is-

- (A) Nil (B) Rs.12,00,000 less notional depreciation u/s 32 upto the date of transfer
(C) FMV of the asset on the date of transfer to business (D) Actual cost of the asset

39. Which of the following is true?

- (A) Depreciation is allowed only if it is claimed in the return of income
(B) A company can be a working partner in a firm
(C) Conversion of capital asset into stock-in-trade is chargeable to tax under PGBP
(D) Wealth tax paid is not allowed as a deduction in the computation of business income.

40. Which of the following is/are not 'plant' u/s 43(3) of the Income-Tax Act, 1961?

- (i) Books (ii) Vehicles (iii) Electrical fittings
(A) Only (i) (B) Only (i) and (ii) (C) Only (iii) (D) Only (ii)

41. Mr. X earned income of Rs.22 lakhs from manufacture and sale of coffee grown, cured, roasted and grounded by him in India. The business income chargeable to tax would be –

- (A) Rs.5,50,000 (B) Rs.8,80,000 (C) Rs.13,20,000 (D) Rs.16,50,000

42. As per section 43B, certain payments are to be allowed as deduction only on actual payment. Such sums include:

- (A) Sum payable by assessee by way of tax, duty, cess or fee, by whatever name called, under any law for the time being in force.
(B) Bonus or commission to employees for services rendered.
(C) Employer's contribution to provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees as referred u/s 36(1)(ii).
(D) All of the above.

43. In computation of business income, in respect of animals which have been used for the purpose of business otherwise as stock-in-trade and have died or become permanently useless for such business purposes, the following deduction is allowable.

- (A) The actual cost to the assessee of the animal
(B) The amount realised in respect of the carcasses or animals
(C) The difference between the actual cost to the assessee of the animal and the amount, if any, realised in respect of carcasses or animals
(D) None of the above.

44. Deduction in respect of Notified Skill Development project is available u/s

- (A) 35DCC (B) 35CDC (C) 35CCD (D) 35ADD

45. Opening WDV of the block of assets was Rs.5,00,000. An asset was acquired under this block on 30th March 2019 for Rs.10,00,000 and put to use on the same day. One of the assets falling within the block was sold for 16,00,000 on 28th February 2019. Rate of depreciation of the block is 15. Calculate the amount of depreciation. What if it is sold for Rs.14,00,000?

- (A) Rs.2,25,000 (B) Rs.1,50,000 (C) Nil (D) Rs.75,000

46. Tax credit in respect of MAT paid as per section 115JB will be allowed only in the previous year in which the tax payable on the total income at the normal rates is —

- (A) More than the tax payable u/s 115JB (B) Less than the tax payable u/s 115JB
(C) Equal to the tax payable u/s 115JB (D) No condition & allowable if credit is there.

47. XYZ Ltd. has made a payment of Rs.10,00,000 to Mr. C, a contractor. TDS was not made during the previous year. The amount of expenditure to be disallowed u/s 40(a) will be—

- (A) Rs.10,00,000 (B) Rs.5,00,000 (C) Rs.3,00,000 (D) Nil

48. New P & M amounting Rs. 25,00,000 was acquired on 1-1-2018 by an assessee who is engaged in the business of manufacture or production of any article or thing, the additional depreciation admissible in FY 2018-19 will be --- .

- (A) Rs.5,00,000 (B) Rs.2,50,000 (C) Nil (D) Rs.3,75,000

49. Any profit or gain arising from conversion of inventory into capital asset is chargeable to tax under the head

- (A) Capital gains (B) Profits and gains of business or profession
(C) Income from Other sources (D) none of the above.

50. Arun & Co. (a partnership firm) engaged in trading of electronic goods having a turnover of Rs. 165 lacs for the FY 2018-19. It

- (A) It has to get its accounts audited u/s 44AB (B) It offers income u/s 44AD
(C) Either of the above (D) None of the above.

51. When a cash payment of Rs.30,000 is made on 1st May, 2018 towards purchase of raw material effected in the earlier year, i.e., on 5th June, 2017, the amount liable for disallowance under section 40A(3A) would be –

- (A) Nil (B) 20% of such payment (C) 100% of payment (D) 30% of such payment

52. Mr. Gopal, proprietor of a business, having receipts of Rs.137 lakhs from commission by way of sourcing insurance and lending arrangements during the FY 2017-18. He

- (A) Can offer income u/s 44AD (B) Has to get his books of accounts audited u/s 44AB
(C) Cannot offer income u/s 44AD yet books are not required to be audited u/s 44AB
(D) None of the above.

53. Provision for gratuity is

- (A) allowed (B) allowed if approved gratuity
(C) allowed if approved gratuity subject to 43B (D) not allowed

54. Mr. A took a loan of Rs.10,00,000 on 1st March 2019 for acquisition of an asset. Such asset was put to use on 30th April 2019. Interest paid for the period till the asset was put to use was of Rs.30,000. The amount of expenditure available to assessee in P.Y. 2018-19 is

- (A) Nil (B) Rs.10,00,000 (C) Rs.30,000 (D) Rs.15,000

55. An employer paid an amount of Rs.30,000 as insurance premium on the health of his employees under a scheme framed in this behalf by GIC. Such payment was made by cash. The insurance amount was of Rs.3,00,000. The amount of deduction available to employer:

- (A) Rs.30,000 (B) Rs.2,70,000 (C) Rs.3,00,000 (D) Nil

56. Deduction for bad debts is allowed to an assessee carrying on business —

- (A) In the year in which the debt is written off as bad.
(B) In the year in which the debt first arose.
(C) In the year in which provisions was made in respect of the bad debt.
(D) In the year in which the debt becomes irrecoverable by operation of law.

57. Which of the following is deductible?

- (A) Advance Income tax (B) Service tax (C) Self-Assessment tax (D) Fine

58. U/s 41(4) of the Income-tax Act, 1961, where a bad debt allowed as a deduction under Section 36(1)(vii) in an earlier year is subsequently recovered —

- (A) It is taxable to the extent of 50% of recovery, in the year of receipt, as business income.
(B) It is taxable as business income in the year of recovery.
(C) It is added back to the income of the year when it was written off and taxed as business income.
(D) It is taxable as income from other sources in the year of receipt.

59. Proportion of expenditure allowed as deduction each year in regard to expenditure incurred on voluntary retirement scheme:

- (A) 1/5th for each 5 successive previous years (B) 1/2 for each 2 successive previous years
(c) 1/10th for each 10 successive previous years (D) Nil

60. Failure to maintain books of accounts etc. in accordance with section 44AA will attract a penalty of _____

(A) Rs.10,000

(B) Rs.50,000

(C) Rs.25,000

(D) Rs.1,50,000

Answers:

1.A 2. C 3.C 4.D 5.D 6.C 7.B 8.B 9.C 10.B

11.B 12.C 13.C 14.B 15.A 16.C 17.B 18.B 19.D 20.B

21.D 22.C 23.A 24.D 25.B 26.C 27.B 28.B 29.B 30.D

31.B 32.B 33.D 34.D 35.C 36.C 37.B 38.A 39.D 40.C

41.C 42.D 43.C 44.C 45.C 46.A 47.C 48.B 49.B 50.C

51.C 52.B 53.C 54.A 55.D 56.A 57.B 58.B 59.A 60.

Analysis of 44B / 44BBA / 44BB / 44BBB

	44B	44BBA	44BB	44BBB
	Shipping	Air Craft	Oil Exploration	Turnkey Power Project
Presumptive Rate of Income	7.5 %	5 %	10 %	10 %
Assessee type	Any	Any	Any	Foreign Company
Option to claim lower profits	No	No	Yes	Yes
44AB Books	No	No	No*	No*
44AB Tax Audit	No	No	No*	No*
MAT (if follows presumptive rates)	No	No	No	No

***If in case assessee claims lower profits then books should be maintained and should be audited.**