

**INTERMEDIATE EXAMINATION****SET 1****MODEL QUESTION PAPER****TERM – JUNE 2026****PAPER – 7****SYLLABUS 2022****DIRECT AND INDIRECT TAXATION**

Time Allowed: 3 Hours

Full Marks: 100

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

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

All workings should form part of the answer.

SECTION – A (Compulsory)**1. Choose the correct option from the four alternatives given.****[15 × 2 = 30]**

- (i) Mr. Suresh is engaged in growing and manufacturing tea in India. His income from this activity is ₹1,40,000. As per the Income-tax Act, 1961, his agriculture income will be: -
- (A) ₹ 1,40,000
(B) ₹ 84,000
(C) ₹ 56,000
(D) ₹ 70,000
- (ii) As per Income tax Act, 1961, total Income of a person is determined on the basis of his/her: -
- (A) Residential Status and Citizenship in India
(B) Only Citizenship in India
(C) Only Residential status in India
(D) None of the Above
- (iii) Out of the below options, what is the maximum amount (monetary limit) of gratuity that will be exempted from tax under section 10(10)(ii) of the Income tax Act, 1961, which is received at the time of termination of service by non-government (including Foreign Government) employees, covered by the Payment of Gratuity Act?
- (A) ₹ 5,00,000
(B) ₹ 10,00,000
(C) ₹ 15,00,000
(D) ₹ 20,00,000
- (iv) Which of the following statements are “CORRECT” as regards to capital gain on transfer of depreciable asset under the Income tax Act, 1961?
- (i) It is always a short-term capital gains/ loss
(ii) The nature of capital gain/ loss (short-term or long-term) will depend on the period of holding
(iii) Indexation benefit can be claimed if the asset is held for more than 36 months
(iv) Indexation benefit can be claimed if the asset is held for more than 24 months
(v) Indexation benefit cannot be claimed

Choose the correct answer

- (A) Point (i) and (v) only
(B) Point (ii) and (iii) only
(C) Point (ii) and (v) only
(D) Point (ii) and (iv) only



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- (v) Sameer, a resident individual, aged 35 years is engaged in the business of trading of readymade garments. He deposited a sum of ₹15 lakhs in a fixed deposit. However, there were no entry of this deposit in his books of accounts. It came to the notice of the assessing officer and when asked, Sameer could not offer any explanation as to the source of such fixed deposit amount. At what rate such amount shall be taxable under the Income tax Act, 1961, in the hands of Sameer?
- (A) As per slab rates
(B) @60% (+ SC @ 25% + cess)
(C) @30% (+ SC @ 25% + cess)
(D) @60% (+ SC @ 37% + cess)
- (vi) If an assessee discovers any omission or wrong statement (bona-fide in nature) in the return filed, he can revise his return..... u/s 139(5) of the Income-tax Act, 1961.
- (A) On or before 30 June of the relevant assessment year or before completion of regular assessment, whichever is earlier.
(B) On or before 30th September of the relevant assessment year or before completion of regular assessment, whichever is earlier.
(C) On or before 31st December of the relevant assessment year or before completion of regular assessment, whichever is earlier.
(D) On or before 31st March of the relevant assessment year or before completion of regular assessment, whichever is earlier.
- (vii) For implementation of GST, Constitution (..... Amendment) Act 2016 was introduced.
- (A) 100th
(B) 101st
(C) 121st
(D) 122nd
- (viii) Under the CGST Act, 2017, Which of the followings is not treated as supply even if made without consideration
- (A) Permanent transfer of business assets on which ITC was taken
(B) Supply between related person not in course or furtherance of business.
(C) Supply between distinct persons in course or furtherance of business
(D) Import of services from related person in course or furtherance of business
- (ix) Surya charged ₹ 60,000 for a supply of Television to Kanak. He has received Subsidy directly linked to price from a charitable Trust engaged in promotion of Television of ₹18,000, the price of ₹60,000 is after deducting this subsidy.
As per the provisions of the GST law, what will be the value of supply?
- (A) ₹ 42,000
(B) ₹ 18,000
(C) ₹ 78,000
(D) ₹ 60,000



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- (x) As per the provisions of the GST law, in case of mobile connection for telecommunication and internet services provided on post-paid basis, the place of supply is: -
- (A) Registered Place of office of the service provider
 - (B) Billing address of the recipient of services in the record of the supplier
 - (C) Actual Place of payment
 - (D) Address of the distributor in the record of the supplier
- (xi) As per the provisions of the GST law Input Tax Credit (ITC) for which of the followings is blocked
- (A) Works contract for building of plant and machinery
 - (B) Works contract for construction of office building
 - (C) Works contract for installation of telecommunication lines
 - (D) Works contract for installation of pipelines
- (xii) Validity of an E-Way Bill for transport of goods by three- wheeler for distance up to 250 kms is.....
- (A) 1 day
 - (B) 2 days
 - (C) 3 days
 - (D) 4 days
- (xiii) If no TDS made during the month, Person required to deduct tax (TDS) under GST law file monthly return in which form?
- (A) GSTR-6
 - (B) GSTR-7
 - (C) GSTR-8
 - (D) Not required to file.
- (xiv) As per Customs law, customs Duty is not leviable in certain cases except: -
- (A) Remission of duty on destroyed goods
 - (B) Pilfered Goods
 - (C) Export of goods
 - (D) Relinquishment of title on the goods
- (xv) Under the section 9 of the Customs Tariff Act, 1975 duty imposed to neutralize subsidy given by exporting country is called
- (A) Anti-dumping Duty
 - (B) Safeguard Duty
 - (C) Countervailing Duty
 - (D) Protective Duty

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2. (a) Mr. Sam aged 45 years, a foreign citizen came to India on 1st January 2019 for first time for employment in Delhi. He left India for a visit to Nepal on 2nd June 2024 and returned back to India on 5th September 2025. His income in the financial year 2025-26 is detailed as below:

Sl. No.	Particulars	Amount (₹)
(i)	Salary received for services rendered in Delhi	7,00,000
(ii)	Profit from the business of wholesale trading of coffee in India received in India	9,00,000
(iii)	Interest from loan given to a resident for his business or profession received in India	1,20,000
(iv)	Dividend from foreign company received outside India	1,50,000
(v)	Rent from a house property in India received in India	5,00,000

Incomes given above are computed after considering eligible deductions. Ignore section 115BAC of the Income Tax Act 1961.

Required:

- (i) Examine the residential status of Mr. Sam for the Assessment Year 2026-27
(ii) **Calculate** his total income taxable in India.

Note: Reason for the treatment should form part of your answer.

[7]

- (b) Mrs Meenakshi, an Indian resident, aged 58 years, is working as Legal Head in Plant Ltd., an Indian Company. She is also serving as a non-executive Director in the Board of Sea Ltd., another Indian company. She provides the following information to you in respect of her income for the financial year 2025-26:

Salary income from Plant Ltd.

- (i) Basic Salary - ₹1,10,000 p.m.
(ii) Dearness allowance - ₹25,000 p.m. (100% forms part of salary for retirement benefits)
(iii) Leave salary received - ₹54,000
(iv) Loan received from the company at an interest rate of 2% p.a. (date of loan 01/08/2025) - ₹80,000 (SBI rate of similar loan – 12% p.a.)
(v) During the financial year, she was transferred to a nearby branch office of the company.
(vi) The company paid ₹10,000 as professional tax on behalf of Meenakshi during the FY 2025-26
(vii) On 15/12/2025, the company gifted 5 air conditioners to her as she was transferred to a branch office of the company. The air conditioners were in very good condition and were being used by the company since last 12 years. The total WDV of these air conditioners was ₹50,000 on the date of gift.
(viii) She got free treatment for an ailment in a hospital owned and maintained by her employer. The normal cost of such treatment was ₹55,000.

She also received ₹4,50,000 as Director's sitting fee from Sea Ltd.

Required:

Calculate Mrs. Meenakshi's income chargeable under the head "Salary" for the Assessment Year 2026-27 assuming that she did not opt out of default tax regime under section 115BAC of the Income Tax Act, 1961

Correct reason for each item should form part of your answer.

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3. (a) Mr Prakash, a resident individual, aged 55 years owns one residential house in Bengaluru. The particulars of the house for the previous year 2025-2026 are as under:

Particulars	Amount (₹)
Standard rent under the Rent Control Act	3,00,000
Municipal valuation	3,60,000
Fair rent	3,50,000
Annual rent	6,00,000
Municipal taxes paid	40,000
Unrealised rent of the previous year 2024-2025	20,000
Unrealised rent of the previous year 2025-2026	10,000
Loss on account of vacancy (Vacant period is 2 months)	1,00,000
Interest paid on capital borrowed	1,10,000
Repairs	8,000
Insurance	5,000
Ground rent	7,500

Mr Prakash has fulfilled all conditions laid out in rule 4 of the Income-tax Rules, 1962 and has taken all reasonable steps to instituted legal proceedings for recovery of the Unrealised rent.

Required:

Calculate the Income taxable in the hands of Mr Prakash under the head” **Income from House Property**” for the assessment year 2026-27.

Assuming Mr Prakash exercise the option of shifting out of the default tax regime provided under section 115BAC of the Income-tax Act, 1961.

Correct reason for each item should form part of your answer.

[7]

- (b) Sanatan, a resident individual is engaged in the business of retail trade. His profit and loss account for the financial year 2025-26 showed a net profit (before depreciation and interest) of ₹65,00,000. He provides the following information regarding his block of asset containing godowns (buildings) (rate of depreciation @10% under The Income Tax Act, 1961)

- Opening WDV - ₹15,00,000
- On 01/05/2025, he bought one godown for keeping his stock-in-trade for ₹10,00,000. He paid ₹9,50,000 through UPI payment system and ₹50,000 in cash. The entire payment was made on 01/05/2025.
- After buying the godown, he spent ₹4,00,000 towards repair of the godown to make it appropriate to store his stock.
- He took a loan amounting to ₹8,00,000 to cover for the purchase and repair cost of the godown. The loan was taken on 01/05/2025 and the rate of interest was 12%. The entire loan is outstanding as on 31/03/2026.
- He started using the godown for his business from 01/11/2025.
- On 14/05/2025, he sold one of the godowns. The relevant details of the godown are as follows:
 - Original cost of the Godown (bought on 01/04/2020): ₹8,00,000

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- (b) WDV as on 01/04/2025 (included in ₹15,00,000): ₹4,70,000
(c) Sales consideration: ₹7,00,000

Required:

- (i) Calculate the income chargeable under the head “**Profits and Gains from Business or Profession**” in the hands of Sanatan for the AY 2026-27, assuming he did not opt out of default tax regime under section 115BAC of the Income Tax Act, 1961
- (ii) Also show separately the WDV of the godowns as on 31st March 2026 which to be carried forward next year. [7]

4. (a) Ms. Anjali, an Indian resident aged 34 years, is an employee of M/s Dime Ltd., an Indian listed company. On 10/09/2024, her company granted her an option to buy 2,500 equity shares under an Employee Stock Option (ESOP) Scheme for ₹200 per share. The vesting period was from 01/10/2024 to 30/11/2024. Anjali applied for 2,000 equity shares on 31/10/2024. The fair market value of these shares on various dates are as follows:

10/09/2024 - ₹500

01/10/2024 - ₹450

30/11/2024 - ₹470

31/10/2024 - ₹550

She sold all these shares on 15/03/2026 for a price of ₹820 per share. Brokerage paid on sale @ 0.5% of sales value. As the shares were listed, STT was paid both at the time of purchase and sale of the shares.

Assume she did not opt out of the default tax regime under section 115BAC of the Income Tax Act, 1961 Cost Inflation Index (CII) for F.Y. 2024-25 – 363; 2025-26 - 376

Required:

- (i) Calculate the amount taxable under the head ‘**Capital Gains**’ for Assessment Year 2026-27 in the hands of Ms. Anjali. Also, compute tax payable on such capital gains by ignoring other incomes and assuming her other income exceeds the basic exemption limit.
- (ii) Will your answer change with regards to nature of the capital gain if the shares received as ESOP are unlisted shares? no need to calculate the tax payable, if any under this situation. [7]
- (b) Mrs Suman aged 52 years, a resident individual, submits the information of following transaction/income during the previous year 2025-26:

Sr. No.	Particulars	Amount (₹)
(i)	On the occasion of her daughter’s marriage her friend assigned in Mrs Suman’s favour a fixed deposit held by the said friend in a Nationalized Bank	25,000
(ii)	Interest on delayed compensation	75,000
(iii)	Interest from bank on fixed deposit	49,500
(iv)	Winning from lottery	9,500
(v)	Dividend from Indian companies	56,500
(vi)	Interest on money borrowed for purchase of Indian companies’ s shares from which dividend income was earned in Sr. No (v)	15,500
(vii)	Pension received from employer of deceased husband @ ₹ 7,000 per month	84,000



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Except Sr. No. (iii), All the amount given above are before TDS (if applicable)

Mrs Suman did not opt out of the default tax regime under section 115BAC of the Income Tax Act, 1961.

Required:

Calculate the income chargeable to tax under the head “**Income from other sources**” in the hands of Mrs Suman for the Assessment Year 2026-27 by Indicating clearly the reasons for treatment of each item. [7]

5. (a) Mr Subhash, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the previous year 2025-26: -

Sr. No.	Particulars	Amount (₹)
(i)	Income from let-out property in Delhi	3,26,000
(ii)	Loss from let-out property in Noida	(1,08,000)
(iii)	Profit and gains from manufacturing business (after deducting normal depreciation of ₹1,50,000 and additional depreciation of ₹38,000)	18,85,000
(iv)	Long-term capital loss on sale of shares of PQR Company Ltd, STT has been paid both at the time of acquisition and sale shares	(65,000)

The other details pertaining to assessment year 2025-26 are as follows (all losses and depreciation related to such assessment year): -

Sr. No.	Particulars	Amount (₹)
(i)	Business loss from manufacturing business	(4,65,000)
(ii)	Unabsorbed normal depreciation	(1,25,000)
(iii)	Loss from the activity of owning and maintaining racehorses	(60,000)

Mr Subhash filed his return of income every year before due date and did not opt out of the default tax regime under section 115BAC of the Income Tax Act, 1961.

Required:

Analyze the case and calculate the gross total income of Mr Subhash for the assessment year 2026-27, by showing clearly the manner of **set-off and the items eligible for carry forward** if he wants to continue with the provisions under section 115BAC of the Income-tax Act, 1961. [7]

- (b) Mr Ramesh, aged 50 years, a resident individual, who is handicapped (not severe but 45 % disability and certified by the medical authority), furnishes the following particulars of his income for the previous year 2025-2026: -

S.N.	Particulars	Amount (₹)
(i)	Taxable income from business	12,35,000
(ii)	Interest on income-tax refund	2,500
(iii)	Short term capital gains on transfer of listed equity shares in a company on which STT is paid	1,00,000
(iv)	Interest on Government securities (Gross)	50,000
(v)	Winnings from horse races (Gross)	60,000
(vi)	Deposit in LIC annuity plan	15,000

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S.N.	Particulars	Amount (₹)
(vii)	Premium paid by cheque towards health insurance policy covering himself, his spouse and his children	45,000

Required:

- (i) Calculate total taxable income and total tax liability of Mr Ramesh for the assessment year 2026-27 under the default tax regime under section 115BAC and optional tax regime as per the Regular provisions (old regime) of the Income-tax Act, 1961.
- (ii) Discuss with reason which scheme is better for him for the assessment year 2026-27. [7]

6. (a) Demonstrate the salient features of indirect taxes. [7]

(b) Demonstrate the functions of the Goods and Services Network (GSTN). [7]

7. (a) Examine the following individual cases and calculate tax to be paid under reverse charge mechanism (RCM) in each case if RCM is applicable under the GST law.

Particulars	Amount (₹)
Rent received for showroom located at Delhi and rented to LEENA Bank Ltd of Delhi by Mr. Ramesh registered in Noida	1,00,000
Amount received for sponsorship services from Khanna and Associates; an unregistered partnership firm of Gurugram by Mr. Kunal registered in Noida	80,000
Security services (by way of supply of security personnel) provided by Mr. Aman registered in Noida to Municipal Corporation, Noida	50,000

All the amounts are exclusive of GST. No need to differentiate tax as intra-state or inter-state. Rate of tax on supply of services is 18%.

A brief explanation for treatment of each item should form part of your answer. [7]

(b) Veer Balaji Trader, a registered firm in the State of Punjab pays GST under normal scheme, provides various taxable services and also trades in air conditioners. It furnishes the following information for the month of October, 2025: -

Sr No	Particulars	Amount (₹)
(i)	Sold air conditioner to a registered dealer in Patiala, Punjab	10,00,000
(ii)	Advance received from a client in Punjab for IT support services to be rendered in November, 2025	50,000
(iii)	Provided consultancy services to Shyam Ltd, registered in Jalandhar, Punjab	3,00,000
(iv)	Provided consultancy services to Jai Ltd, registered in Noida, Uttar Pradesh	4,50,000
(v)	Premium paid for health insurance services for employees (services are not provided under Government obligation)	75,000
(vi)	Purchased laptops from a registered supplier in Jaipur, Rajasthan	2,50,000
(vii)	Purchased a delivery van for transportation of air conditioner from a registered supplier in Punjab. No depreciation claimed on GST component.	8,00,000
(viii)	Paid office rent to a registered landlord (Individual)in Punjab	96,000



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Additional Information: -

- All the above amounts are exclusive of all kinds of taxes, wherever applicable.
- Applicable rate of GST in respect of all inward and outward supplies above is 18% i.e., CGST and SGST @ 9% each and IGST @ 18% unless and until otherwise mentioned.
- Assume that all the inward supplies used only for outward taxable supply.
- All the conditions necessary for availing the ITC have been fulfilled, subject to restrictions under GST law. Details of GST paid on inward supplies are available in GSTR-2B. There was no opening balance of input tax credit at the beginning of the month.
- Wherever details for determination of Place of Supply are not given in the question, it shall be taken as intra-State transaction.

Required:

From the information given above, you are required to compute the net minimum GST liability payable in cash, if any, by Veer Balaji Trader for the Month of October, 2025 after utilizing input tax credit.

Note: Calculate individual tax amount (if any) for each point and legal explanations for each point should form part of your answer except provision for Place of Supply. [7]

8. (a) Diksha Ltd is a manufacturer and supplier of goods, registered under GST in the State of Rajasthan. Diksha Ltd provides the following information pertaining to GST paid on goods and services procured by it during the month of October, 2025: -

Sr. No	Particulars	GST paid (₹)
(i)	Cement used for making foundation and structural support to plant and machinery	48,500
(ii)	Purchased goods which are used for activities related to its obligation under corporate social responsibility referred to in section 135 of the Companies Act, 2013.	1,15,000
(iii)	Goods given as free sample to prospective customers	35,800
(iv)	Confectionery items for consumption of employees working in the factory under statutory obligation	36,000
(v)	Car purchased for making further supply of such car. Such car is destroyed in accident while being used for test drive by potential customers	75,600
(vi)	Purchase of computer earlier now debit note is issued for difference of the value due to wrong calculation	55,500

You may assume that all the necessary conditions for availing the ITC have been fulfilled by Diksha Ltd.

Required:

Analyze the case and calculate the amount of input tax credit (ITC) available for the month of October, 2025 by giving necessary explanations for treatment of various items as per the provisions of the GST law.

[7]

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- (b) Jai Bhawani Ltd of Mumbai, imported a machine through vessel from USA in the month of October, 2025. The details in this regard are as under:

Sr. No.	Particulars	Amount
(i)	Cost of the Machine at the factory of the exporter	US \$ 15,000
(ii)	Freight charges from port of export to port of import in India	US \$ 2,000
(iii)	Engineering charges paid in USA	US \$ 1,000
(iv)	Buying commission paid by the importer	US \$ 50
(v)	Lighterage charges paid at the port of importation	₹ 2,200
(vi)	Insurance charges paid to the place of importation	Not known
Other information		
(i)	Rate of exchange notified by CBIC	1 US \$ = ₹ 90
(ii)	Rate of basic customs duty	10%
(iii)	Rate of social welfare surcharge (SWS)	10%
(iv)	Integrated tax payable u/s 3(7) of the Customs Tariff Act, 1975	12%
Ignore GST compensation cess and Agriculture infrastructure and development cess		

Required:

Examine the above case and, calculate the Assessable value of machine and total duty liability including Integrated tax payable (rounded off to nearest one rupee) with appropriate working notes under Customs Act, 1962. [7]