Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 7: Tax Laws and Practice (TLP)

Mock Test 2 – Full Paper with Model Answers

ICSI Syllabus 2022 pattern: 100 marks · 3 hours (+15 minutes' reading) · Part I Direct Tax (60 marks) Q1–Q4 · Part II Indirect Tax – GST and Customs (40 marks) Q5–Q6 · all questions compulsory · internal choice in Q4/Q4A and Q6/Q6A · Income-tax Act, 1961 as amended by the Finance Act, 2025 – A.Y. 2026-27 · GST and Customs as amended up to 31 May 2026 · Original Skillshort questions, every figure checked in Python

Time: 3 hours | Max marks: 100 | Answer ALL questions | Assume the new regime u/s 115BAC unless stated | Model answers follow the paper

Contents

Question Paper 2

Model Answers 4

This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

3 Past papers: trends & links

4 Mock tests + solutions

5 Chapter practice questions

6 Last-week plan & strategy

Prepared by Skillshort for self-study. Original explanations and questions; not an official ICSI publication. Items marked VERIFY should be checked against the latest official material.

Question Paper

Answer ALL questions. Working notes form part of the answer. All figures relate to P.Y. 2025-26 (A.Y. 2026-27) unless stated.

Part I – Direct Tax (60 marks)

Q1 Case study. Mr. Sameer, aged 52, a resident individual, manufactures garments (turnover ₹12 crore; cash receipts above 5%). His net profit for P.Y. 2025-26 is ₹45,00,000 after debiting and crediting:

Item	₹
Depreciation as per books (depreciation under s.32 is ₹4,20,000)	3,00,000
Payment in cash to a supplier on a single day	60,000
Interest on a bank term loan, paid in December 2026	1,00,000
Income-tax paid	2,00,000
Payment to a resident contractor without TDS	5,00,000
Donation to PM CARES Fund	50,000
Salary to his brother, of which ₹40,000 is excessive compared with market rates	2,40,000
Credited: dividend from an Indian company	80,000
Credited: LTCG on listed equity shares (STT paid), sold in May 2025	3,00,000

He has not opted out of the default regime.

(i) Compute his income from business. **(3 marks)**

(ii) Compute his gross total income and total income. **(3 marks)**

(iii) Compute his tax liability. **(3 marks)**

(iv) Show the advance-tax instalments he should have paid. **(3 marks)**

(v) Is a tax audit required? State the due dates for the audit report and the return for A.Y. 2026-27. **(3 marks)**

Q2 Answer the following (5 marks each):

(a) Anupam owns a house in Noida with two equal units. Unit I is self-occupied; Unit II is let at ₹25,000 per month. For each unit: municipal value ₹2,10,000, fair rent ₹2,40,000, standard rent ₹2,70,000. Municipal tax paid ₹30,000 and interest on the 2018 housing loan ₹3,00,000 relate to the whole house. Compute his income from house property under both regimes.

(b) Ms. Ritu works in Mumbai: basic salary ₹80,000 per month; bonus ₹1,20,000; rent-free flat owned by the employer; interest-free car loan of ₹5,00,000 outstanding all year (SBI rate 9%); gift voucher of ₹8,000. Compute her taxable salary and tax under the default regime.

(c) Distinguish the treatment of a self-occupied house under the old and the default regimes.

Q3 Answer the following (5 marks each):

(a) Alpha Ltd., a domestic company with turnover of ₹600 crore in P.Y. 2023-24, has a total income of ₹5 crore and a book profit of ₹6 crore. Compare its tax under the normal provisions and under s.115BAA, and advise.

(b) Explain the taxation of an HUF and the deductions available to it.

(c) Manish bought 1,000 listed shares on 4 May 2016 at ₹100 each (brokerage ₹3,000). He received 1,000 bonus shares on 15 March 2024. He sold all 2,000 shares on 10 January 2026 at ₹250 each (brokerage 1%, STT paid). FMV on 31 January 2018 was ₹150. Compute the tax on the capital gain.

Q4 Answer the following (5 marks each):

(a) In which documents is quoting Aadhaar mandatory u/s 139AA, and to whom does it not apply?

(b) Explain TDS on transfer of a virtual digital asset u/s 194S.

(c) Who must file a return even if total income is below the basic exemption limit?

OR Q4A Answer the following (5 marks each):

(a) State the due dates for TDS statements and Form 16, and the fee for late filing.

(b) Explain interest u/s 234A, 234B and 234C.

(c) How is unexplained income u/s 68–69D taxed?

Part II – Indirect Tax (40 marks)

Q5 Case study. VVIP Global Ltd., registered in Mumbai, supplied a machine to Moon Ltd., registered in Indore (Madhya Pradesh), on 15 October 2025. The distance is 590 km.

Particulars	₹
List price of the machine	5,00,000
Trade discount of 5% shown on the invoice	–
Packing charged separately	10,000
Freight for delivery to Indore, charged on the invoice	15,000
Subsidy from the Maharashtra Government to VVIP (not linked to price)	20,000
Commission paid by VVIP to its own sales agent	8,000
Interest for late payment received from Moon in November 2025	5,000

GST rate on the machine: 18%. VVIP's aggregate turnover in 2024-25 was ₹8 crore.

(i) Compute the value of supply and the GST payable. **(5 marks)**

(ii) Is the supply inter-State or intra-State? Explain with the place of supply. **(5 marks)**

(iii) Is an e-way bill required? Who generates it, and how long is it valid? **(5 marks)**

(iv) Must VVIP issue an e-invoice? When must the tax invoice be issued, and how is the late-payment interest taxed? **(5 marks)**

Q6 Answer the following (5 marks each):

(a) Piyush Pvt. Ltd. imported a machine from the UK: FOB USD 30,000; sea freight USD 4,000; insurance USD 300; landing charges ₹5,000; demurrage at port ₹10,000. CBIC exchange rate ₹85.50/USD. BCD 10%; SWS 10%; IGST 18%. Compute the assessable value and the duty.

(b) Arihant Ltd., a machinery maker, paid GST on: (i) cement for its factory building; (ii) a machine fixed to the floor with a foundation; (iii) group health insurance for staff, not required by law; (iv) raw material destroyed in a fire; (v) a truck to carry finished goods. Which credits are allowed?

(c) When can a provisional refund be granted, and on what conditions?

(d) Ramada Ltd. is winding up its business. Which final return must it file and by when? Also explain whether GST is payable on advances for goods and for services.

OR Q6A Answer the following (5 marks each):

(a) Are these eligible for composition (previous-year turnover below ₹1.5 crore)? (i) a manufacturer of ice cream; (ii) a restaurant without liquor; (iii) a trader making inter-State sales; (iv) a CA firm with turnover ₹40 lakh; (v) a trader selling goods through Amazon.

(b) Ranjan Enterprises, exempt from tax, collected ₹70,000 as "GST" from buyers but has not deposited it. Explain the consequences.

(c) Explain TDS under s.51 of the CGST Act.

(d) Explain duty drawback under ss.74 and 75 of the Customs Act.

Model Answers

SOLUTION Q1 (i) Income from business

Particulars	₹
Net profit as per P&L	45,00,000
Add: book depreciation	3,00,000
Add: cash payment > ₹10,000 in a day – s.40A(3)	60,000
Add: bank interest paid after due date of return – s.43B	1,00,000
Add: income-tax – s.40(a)(ii)	2,00,000
Add: 30% of contractor payment without TDS – s.40(a)(ia)	1,50,000
Add: donation (not a business expense)	50,000
Add: excessive payment to relative – s.40A(2)	40,000
Less: depreciation u/s 32	(4,20,000)
Less: dividend (other sources)	(80,000)
Less: LTCG (capital gains)	(3,00,000)
Income from business	**46,00,000**

SOLUTION Q1 (ii) Gross total income

- Business ₹46,00,000 + other sources (dividend) ₹80,000 + LTCG u/s 112A ₹3,00,000 = **GTI ₹49,80,000**.
- Default regime: **no deduction u/s 80G** for PM CARES (it is allowed only in the old regime). **Total income ₹49,80,000**.

SOLUTION Q1 (iii) Tax liability

- Normal income ₹46,80,000: 20,000 + 40,000 + 60,000 + 80,000 + 1,00,000 + 30% × 22,80,000 (6,84,000) = **₹9,84,000**.
- LTCG 12.5% × (3,00,000 − 1,25,000) = ₹21,875. Total ₹10,05,875.
- Total income ≤ ₹50 lakh → no surcharge. Cess 4% ₹40,235 → **tax ₹10,46,110**.

SOLUTION Q1 (iv) Advance tax (LTCG arose in May, so it is included from the first instalment)

Due date	Cumulative %	Cumulative ₹	Instalment ₹
15 June 2025	15%	1,56,917	1,56,917
15 Sept 2025	45%	4,70,750	3,13,833
15 Dec 2025	75%	7,84,583	3,13,833
15 Mar 2026	100%	10,46,110	2,61,527

Shortfalls attract interest u/s 234C (1% per month) and u/s 234B if less than 90% is paid by 31 March.

SOLUTION Q1 (v) Tax audit

- Turnover ₹12 crore exceeds **₹1 crore**, and the ₹10 crore limit is not available as cash receipts exceed 5% → **audit u/s 44AB is required**.
- Audit report (Form 3CB-3CD): **30 September 2026** (one month before the return due date); return: **31 October 2026** VERIFY.

SOLUTION Q2 (a) House property

- **Unit II (let out)**: expected rent = higher of MV ₹2,10,000 and FR ₹2,40,000, limited to SR ₹2,70,000 = ₹2,40,000; actual rent ₹3,00,000 → **GAV ₹3,00,000**; less municipal tax (half) ₹15,000 → NAV ₹2,85,000; less 30% ₹85,500; less interest (half) ₹1,50,000 → **₹49,500**.
- **Unit I (self-occupied)**: annual value nil. **Old regime**: interest ₹1,50,000 (within ₹2 lakh) → loss ₹1,50,000; HP income = 49,500 − 1,50,000 = **loss ₹1,00,500**. **Default regime**: interest on a self-occupied unit not allowed → HP income **₹49,500**.

SOLUTION Q2 (b) Salary with perquisites

Particulars	₹
Basic salary (80,000 × 12)	9,60,000
Bonus	1,20,000
Rent-free flat – 10% of salary (city population > 40 lakh)	1,08,000
Interest-free loan – (9% − 0%) × 5,00,000 (exceeds ₹20,000)	35,000
Gift voucher (over ₹5,000 – whole amount taxable)	8,000
Gross salary	12,31,000
Less: standard deduction	(75,000)
Taxable salary	**11,56,000**

- Tax: 20,000 + 10% × 3,56,000 = ₹55,600; rebate u/s 87A (total income ≤ ₹12 lakh) ₹55,600 → **tax nil**.

SOLUTION Q2 (c) Self-occupied house

Point	Old regime	Default regime
Annual value	Nil (up to two houses)	Nil
Interest on loan	Up to ₹2,00,000 (₹30,000 for repairs or pre-1999 loans)	**Not allowed**
Loss set-off	Against other heads up to ₹2 lakh	Not allowed

SOLUTION Q3 (a) Company

- Turnover above ₹400 crore → normal rate **30%**. Tax = 1,50,00,000 + surcharge 7% + cess 4% = **₹1,66,92,000**.
- MAT: 15% × 6 crore + 7% + 4% = ₹1,00,15,200 – lower, so normal tax applies.
- **s.115BAA**: 22% + 10% surcharge + 4% cess (25.168%) = **₹1,25,84,000** → saves **₹41,08,000**, but the company loses specified deductions and incentives, MAT does not apply, and brought-forward MAT credit lapses. The option is **irreversible** and must be exercised in Form 10-IC by the due date. Alpha should opt if it has no large incentives.

SOLUTION Q3 (b) HUF

- An HUF is a separate **person** (s.2(31)); default regime u/s 115BAC; slab rates like an individual below 60 (no senior-citizen benefit).
- Old regime deductions: **80C** (for members), **80D** (members), **80DD**, **80DDB**, **80G**, **80GGC**, **80TTA**; not available: 80CCC/80CCD, 80E, 80GG, 80U (individuals only) VERIFY.
- Income from property thrown into the HUF by a member is clubbed with the member (s.64(2)). A member's receipt from HUF is exempt u/s 10(2). Partial partition is not recognised (s.171(9)).

SOLUTION Q3 (c) Capital gains

- **Original shares** (bought before 1-2-2018, held > 12 months): cost = higher of actual ₹1,03,000 and lower of (FMV ₹1,50,000, sale value ₹2,50,000) = ₹1,50,000. LTCG = 2,47,500 − 1,50,000 = **₹97,500**.
- **Bonus shares** (allotted 15-3-2024, held > 12 months): cost **nil** → LTCG = **₹2,47,500**.
- Total LTCG u/s 112A = ₹3,45,000; exempt ₹1,25,000; tax 12.5% × 2,20,000 = **₹27,500** + cess.

SOLUTION Q4 (a) Aadhaar u/s 139AA

- Quoting is mandatory in the **return of income** and the **application for PAN**. Every person with a PAN on 1-7-2017 who is eligible for Aadhaar must **link** them; else the PAN becomes inoperative (fee ₹1,000).
- Not applicable to: residents of **Assam, Meghalaya and J&K**; **non-residents**; persons aged **80 or more**; persons who are **not citizens of India**.

SOLUTION Q4 (b) TDS on VDA – s.194S

- Any person paying consideration for the transfer of a **virtual digital asset** to a resident must deduct **1%** at the time of credit or payment.
- No TDS if the payer is a **specified person** (individual/HUF without tax audit) and the amount ≤ **₹50,000** in the year; for others ≤ **₹10,000**.
- Where consideration is in kind, the payer must ensure tax is paid before release. Income from VDA is taxed at **30%** u/s 115BBH with no set-off of losses.

SOLUTION Q4 (c) Return below the exemption limit

- Deposits of more than **₹1 crore** in current accounts; **₹2 lakh** spent on foreign travel; **₹1 lakh** on electricity; business turnover above **₹60 lakh**; professional receipts above **₹10 lakh**; TDS/TCS of **₹25,000** or more (₹50,000 for senior citizens); savings deposits of **₹50 lakh** or more.
- A resident holding a **foreign asset** or signing authority in a foreign account; a person claiming exemption u/s 54 etc. whose income before such exemption exceeds the limit.

SOLUTION Q4A (a) TDS statements

- Quarterly statements (Form 24Q/26Q): **31 July, 31 October, 31 January and 31 May**.
- **Form 16** by **15 June**; **Form 16A** within 15 days of the due date of the quarterly statement.
- Fee u/s **234E**: ₹200 per day, up to the TDS amount; penalty u/s 271H ₹10,000–1,00,000.

SOLUTION Q4A (b) Interest

- **234A**: late filing of return – 1% per month on tax due from the due date.
- **234B**: advance tax paid less than **90%** of assessed tax – 1% per month from 1 April to the date of assessment or payment.
- **234C**: deferment of instalments – 1% per month for 3 months (1 month for the March instalment) on the shortfall against 15/45/75/100%.

SOLUTION Q4A (c) Unexplained income

- Cash credits, unexplained investments, money, bullion, jewellery and expenditure (ss.68–69D) are taxed u/s **115BBE** at **60%** plus **25% surcharge** and 4% cess (about **78%**).
- **No deduction** of any expense or allowance, and **no set-off** of any loss against such income. Penalty u/s 271AAC may also apply.

SOLUTION Q5 (i) Value and GST – s.15

Particulars	₹
List price	5,00,000
Less: trade discount 5% (shown on invoice)	(25,000)
Add: packing (incidental expense)	10,000
Add: freight (composite supply; principal supply = machine)	15,000
Subsidy from State Government – excluded	–
Commission paid by VVIP – its own cost, not added	–
Value of supply	**5,00,000**
IGST @ 18%	**90,000**

SOLUTION Q5 (ii) Nature of supply

- Movement of goods ends in **Indore** → place of supply **Madhya Pradesh** (s.10(1)(a) IGST Act).
- Supplier in Maharashtra, place of supply in MP → **inter-State supply** → **IGST**.

SOLUTION Q5 (iii) E-way bill

- Value of consignment over **₹50,000** → e-way bill **required** (Rule 138).
- The **supplier** (or the recipient, or the transporter if authorised) generates Part A; the transporter fills **Part B** (vehicle number).
- Validity: 590 ÷ 200 = 2.95 → **3 days** from generation, ending at midnight of the third day.

SOLUTION Q5 (iv) E-invoice and timing

- Aggregate turnover above **₹5 crore** in any year since 2017-18 → **e-invoice (IRN and QR code)** is mandatory for this B2B supply. AATO below ₹10 crore, so the 30-day reporting limit does not apply.
- Tax invoice for goods must be issued **before or at the time of removal** (s.31(1)).
- Interest for late payment is part of the **value** (s.15(2)(d)); IGST 18% × 5,000 = **₹900**, payable when received (November 2025) by issuing a **debit note**.

SOLUTION Q6 (a) Customs

- FOB USD 30,000 + freight 4,000 + insurance 300 = **USD 34,300**. Landing charges and demurrage are **not** added (removed from Rule 10 in 2017).
- AV = 34,300 × 85.50 = **₹29,32,650**.
- BCD 10% = ₹2,93,265; SWS 10% of BCD = ₹29,327; IGST 18% × (29,32,650 + 2,93,265 + 29,327) = ₹5,85,944.
- **Total duty = ₹9,08,536**.

SOLUTION Q6 (b) ITC

- (i) Cement for a factory building – **blocked** (s.17(5)(d), construction on own account).
- (ii) Machine fixed with a foundation – **plant and machinery** → **allowed**.
- (iii) Health insurance not required by law – **blocked** (s.17(5)(b)).
- (iv) Raw material destroyed in fire – **blocked** (s.17(5)(h)); ITC already taken must be reversed.
- (v) Truck for goods transport – **allowed** (exception to s.17(5)(a)).

SOLUTION Q6 (c) Provisional refund – s.54(6)

- For **zero-rated supplies** (exports, SEZ), the officer may grant **90%** of the claim provisionally within **7 days** of acknowledgement.
- Conditions: the applicant has **not been prosecuted** for tax evasion over ₹2.5 crore in the last 5 years; the claim is complete; GSTR-1 and 3B are filed. Balance refund after verification; interest at 6% if delayed beyond 60 days.

SOLUTION Q6 (d) Final return and advances

- On cancellation of registration, a **final return in GSTR-10** must be filed within **3 months** of the date of cancellation or the cancellation order, whichever is later; late fee applies. Tax on stock held is payable u/s 29(5).
- **Goods**: no GST on advances (Notification 66/2017-CT) – time of supply is the invoice date.
- **Services**: GST is payable on receipt of the advance (s.13(2)); a **receipt voucher** is issued. If no supply is made, a **refund voucher** is issued.

SOLUTION Q6A (a) Composition

- (i) Ice cream – **not eligible** (notified goods).
- (ii) Restaurant without liquor – **eligible** at 5%.
- (iii) Inter-State outward supplies – **not eligible**.
- (iv) CA firm – may opt for **s.10(2A)** (services up to ₹50 lakh, 6%) – **eligible**.
- (v) Goods through an e-commerce operator collecting TCS – **not eligible** VERIFY.

SOLUTION Q6A (b) Tax collected but not paid – s.76

- Any person who collects an amount as tax must **pay it to the Government**, whatever the taxability of the supply.
- The officer issues a notice; Ranjan must pay ₹70,000 with **interest at 18%** from the date of collection; penalty up to the amount involved; the amount may be refunded to buyers who bore it, else credited to the **Consumer Welfare Fund**.

SOLUTION Q6A (c) TDS u/s 51

- Deductors: **Government departments, local authorities, government agencies** and notified persons.
- **2%** (1% CGST + 1% SGST, or 2% IGST) on payments to a supplier when the contract value exceeds **₹2.5 lakh**.
- Deposit by the **10th** of the next month with **GSTR-7**; certificate to the deductee. No TDS where the supplier's location and place of supply are in a State different from the recipient's State of registration.

SOLUTION Q6A (d) Duty drawback

- **s.74**: imported goods **re-exported** within **2 years**, identifiable, → **98%** of duty if not used; lower rates if used.
- **s.75**: drawback of duties on **inputs** used in making **export goods** – All Industry Rates or brand rates; not allowed if export value is less than the value of imported inputs.
- Interest at **6%** if not paid within one month (s.75A).