AUDITING AND TAXATION

INCOME UNDER THE HEAD CAPITAL GAINS

MULTIPLE CHOICE QUESTIONS

1. Capital Assets include all Assets except the following---------------Assets to be included for the purpose of computing income under the head “Income from Capital Gains”.

   a) Stock in Trade, Personal effects, Specified Bonds, Rural Agricultural Land
   b) Stock in Trade, Furniture, Jewels and ornaments held by the Assessee for personal use
   c) Stock in Trade, Paintings, Archaeological Collections, drawings and sculptures held by the Assessee for personal use.

   Answer: a) Stock in Trade, Personal effects, Specified Bonds, Rural Agricultural Land.

2. Short Term Capital Loss can be set off against-----------

   a) Income from any other head
   b) Long Term Capital Gain or Short Term Capital Gain
   c) Only Short Term Capital Gain.

   Answer: b) Short Term Capital Losses can be set off against short term or long term capital gains.

3. Mr. Harsh held a Computer for 26 Months and sold the same to Mr. Karthik incurring a capital loss of Rs10500/-. How should the above transaction, be treated by Mr. Harsh. ------------

   a) Short Term Capital Loss
   b) Long Term Capital Loss
   c) No Gain or Loss to be computed.
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Answer: c) Mr. Harsh held the computer for his personal use. No Capital Gain or Loss is computed on the Assets held by the Assessee as personal effects.

4. The holding period for Debt Mutual Fund Units and other debt Securities Jewels and other capital Assets, to consider them as Long Term Capital Asset is----------

a) 24 Months
b) 12 Months
c) 36 Months

Answer: c) 36 Months. The holding period for Debt instruments to consider it to be a long term capital asset is 36 Months.

5. The holding period for an Immovable property to consider it as a Long Term Capital Asset is----------

a) 24 Months
b) 12 Months
c) 36 Months

Answer: a) 24 Months. With effect from FY 17-18, 36 months has been reduced to 24 Months.

6. The holding period for Listed Equity shares and Equity Mutual Fund Units, to consider them as Long Term Capital Asset is----------

a) 24 Months
b) 12 Months
c) 36 Months

Answer: b) 12 Months. If the Equity shares or UTI units or Equity Mutual Fund units are held by the Assesse prior to transfer for less than 12 Months they will be termed as Short term capital Asset. Provided the
7. The holding period for Unlisted Equity Shares, to consider them as Long Term Capital Asset is----------

   a) 24 Months
   b) 12 Months
   c) 36 Months

   Answer: a) 24 Months. If the Equity shares are not listed on a registered stock exchange and the transfer has not taken place through a registered broker the holding period for such equity shares is 24 Months.

8. Long Term Capital Loss can be set off against----------------

   a) Business Profits
   b) Long Term Capital Gains
   c) Short Term Capital Gains and Long Term Capital Gains

   Answer: b) Long Term Capital Losses can be set off against Long Term Capital Gains only.

9. The Tax Rate on Long Term Capital Gains for Debt Mutual Funds----------------

   a) 10% without indexation or 20% with indexation whichever is lower.
   b) 20% with indexation
   c) 10% with indexation.

   Answer: b) 10% without indexation or 20% with indexation whichever is lower was before 10th July 2014. With effect from 11th July 2014 onwards 20% with indexation.

10. An Assessee (individual or HUF) can avail exemption under Sec. 54, on the Long Term Capital Gains made on sale of a House property, by reinvesting the gains into
an another residential house property, within the specified period of time. However, If the capital gains are not utilized for the same upto the date of submission of return, then the amount has to be----------------------

a) Deposited in ordinary saving bank account 

b) **Deposited in Capital Gains deposit account scheme.**

c) Deposited in postal saving bank account.

Answer: b) The portion of capital gains need to be reinvested into another house property within the specified period of time, which extends to two years for purchase and three years for construction. If the amount is not utilized or the portion of amount which is not utilized till the date of submission of return then it needs to be deposited in a special account – capital gains deposit account scheme available in selected scheduled banks.

11. An Assessee (individual or HUF) can avail exemption under Sec. 54, on the Long Term Capital Gains made on sale of a House property, upto a maximum of -------------- -------------- , by investing the capital gains into------------------

a) **Rs 2 Crores; two residential house properties**

b) **Rs 1 Crore ; one residential house property**

c) **Rs 1 Crore ; special bonds**

Answer: a) with effect from FY 19-20, If the new residential house property is purchased within one year before, or within two years after, the date of transfer of the old residential property. New properties construction should be completed within three years from the date of transfer of the property.

12. Exemption claimed under Sec 54, can be taken back if-----------------------

a) The new residential property is sold within 36 Months (24 Months w.e.f 1st April 2017) from the date of acquisition or completion of construction.

b) The new residential property is sold within 48 Months from the date of acquisition or completion of construction

c) The new residential property is let out for rent for commercial purpose.
Answer: a) The new residential property is sold within 36 Months or 24 months from the date of acquisition or completion of construction. The immovable property needs to be held for it to become a long term capital asset. If it is sold within a short period of time which defines the capital asset to be short term capital asset then, the exemption claimed will be taken back and the Assessee will have to pay the tax along with interest and penalty, with retrospective effect. From FY 17-18, for immovable property the short term is reduced to 24 Months from 36 Months.

13. Exemption under Sec 54D can be claimed for Capital Gains on compulsory acquisition of land or building forming a part of .................. and it can be availed by the following Assessee------------------

a) Industrial Undertaking; firm or company only.
b) Industrial Undertaking; HUF, firm or company only.
c) Industrial Undertaking; Individual, HUF, firm or company, or other Assessee

Answer: a) Sec 54D deals with exemption on compulsory acquisition of industrial land or building forming a part of industrial undertaking. It can be availed by any Assessee- Individual, HUF, Firm, Company or any other Assessee.

14. Exemption under Sec 54B is available from the transfer of -------------------

a) Industrial Undertaking
b) Land used for Agricultural purpose
c) Gold, Silver and Diamonds

Answer: b) Exemption under Sec 54B, is available on transfer of Agricultural Land held and used for agricultural purpose for a period of two years immediately preceding the date of transfer by an individual Assessee.

15. Exemption under Sec 54EC is available for------------------ Assets

a) Long Term Capital Assets
b) Short Term Capital Assets

c) Both a and b

Answer: b) Exemption under Sec 54EC is available on investment in certain specified bonds.

16. Exemption under Sec 54EC is available for capital gains invested into specified Bonds, the maximum limit for investment is------------------------

a) 1 Crore
b) 25 Lakhs
c) **50 Lakhs**

Answer: c) With effect from 1st April 2007, the maximum investment in specified bonds to avail exemption under sec 54EC is limited to Rs Fifty Lakhs.

17. Exemption under Sec 54EC is available for capital gains invested into specified Long term specified assets. These long term specified assets are-----------------------

a) 5 year Tax Saver FD
b) Capital Gains Deposit Account Scheme
c) **Redeemable bonds issued by The National Highway Authority of India, The Rural Electrification Corporation Ltd.**

Answer: c) Redeemable bonds issued by The National Highway Authority of India and The Rural Electrification Corporation Ltd.

18. Mr. Laxman sold his gold chain for Rs56000/- on 15th Feb 2019. He was gifted on his marriage by his uncle (costed Rs 32000/- to his uncle) on 14th March 2017. Mr. Laxman shows an amount of Rs. ------------------a Short term capital gain for the PY 18-19.

a) Rs. 56000/-
b) **Rs. 24000/-**
c) Rs. 21500/- (after applying cost of indexation)
Answer: b) Though it is a free gift which has no cost of acquisition, in case of gifted and inherited property the cost of the previous owner will be considered as the cost price of the property, provided the tax payer submits the necessary documentary evidence including the purchase invoice. (under section 49(1))

19. In computation of Short Term Capital Gains, the following can be deducted from the Sale proceeds, to arrive at the taxable capital gains------------------------

a) Expenses related to transfer of asset; indexed cost of acquisition and indexed cost of improvement.
b) Transfer expenses, cost of acquisition and cost of improvement.
c) Expenses related to transfer of asset, cost of acquisition and improvement, deductions under Sec 54B, 54D, 54G and 54GA if any.

Answer: c) From the sale consideration the following can be deducted
- Expenditure incurred exclusively in connection with such transfer
- Cost of acquisition (purchase price)
- Cost of improvement (if any) (only capital expenditure) From the value so derived which is the gross capital gain deductions under Sec 54B, 54D, 54G and 54GA if any can be deducted to arrive at the net capital gains.

20. In computation of Long Term Capital Gains, the following can be deducted from the Sale proceeds, to arrive at the taxable capital gains------------------------

a) Expenses related to transfer of asset; indexed cost of acquisition and indexed cost of improvement, deductions under Sec 54, 54B, 54D, 54EC, 54F, 54G and 54GA if any.
b) Transfer expenses, cost of acquisition and cost of improvement.
c) Expenses related to transfer of asset, cost of acquisition and improvement, deductions under Sec 54B, 54D, 54G and 54GA if any.

Answer: c) From the sale consideration the following can be deducted
- Expenditure incurred exclusively in connection with such transfer
- Indexed Cost of acquisition (purchase price)
- Indexed Cost of improvement (if any) (only capital expenditure)
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From the value so derived which is the gross capital gain deductions under Sec 54, 54B, 54D, 54EC, 54F, 54G and 54GA if any can be deducted to arrive at the net Long Term Capital Gains.

21. The Finance Act 2017, shifted the base year from to for the cost inflation index(CII)

a) 1981 to 2001  
b) 2001 to 1981  
c) 1961 to 2001

Answer: a) The base year has been shifted from 1981 to 2001 for CII, in the finance bill 2017. It is used to calculate the indexed cost of acquisition while computing the long term gains.

22. The Cost Inflation Index for the year 2001 is

a) 100  
b) 551  
c) 686

Answer: a) The base year has been shifted from 1981 to 2001 for CII, in the finance bill 2017. It is used to calculate the indexed cost of acquisition while computing the long term gains. The Cost inflation index for the base year is 100. Earlier the base year for CII was 1981.

23. Mr. Surjeet who joined as a partner in ABC Firm transferred his Furniture in the partnership firm’s name. While selling this furniture what amount will be considered as the cost of acquisition nu the firm while computing the capital gain.

a) Fair market value of furniture on the date of transfer  
b) Amount recorded in the books of partnership firm as the value of capital asset in the year of transfer  
c) Market value of furniture on the date of transfer.

Answer: b) When a partner brings in movable asset as a part of capital at the time of joining the partnership firm, the value of purchase for the
firm will be the value which the firm records as on the date of transfer as value of that asset. It may be different from the market value or the fair value as on that date but it will be considered as the amount of full consideration, hence the recorded value will be considered.

24. Exemption under Sec 54F is available for capital gains when the net consideration on transfer of ------------------------ capital asset is invested in---------------------

   a) Long term capital asset (other than residential house property); residential house property
   b) Short term capital asset; residential house property
   c) Long term residential house property; residential house property

   **Answer:** a) Long term capital asset (other than residential house property); residential house property

   Note – The entire net consideration and not only the capital gain has to be reinvested into the purchase of a immovable property within the specified period of time.

25. Exemption under Sec 54G is available for capital gains when the net consideration on transfer of assets in shifting of industrial undertaking from ------------------ area to ---------------- area.

   a) Urban area to rural area
   b) Urban area to special economic zone
   c) Rural area to urban area

   **Answer:** a) If any industrial capital asset has been transferred in shifting the industrial undertaking from a urban area to a rural area and the amount has been invested for the purpose of purchasing plant and machinery to set up the industrial undertaking in the shifted rural area the exemption on that much part of amount reinvested can be claimed under Sec 54G
26. Exemption under Sec 54GA is available for capital gains when the net consideration on transfer of assets in shifting of industrial undertaking from ------------ area to ------ ----- area.

   a) Urban area to rural area
   b) Urban area to special economic zone
   c) Rural area to urban area

   Answer: a) If any industrial capital asset has been transferred in shifting the industrial undertaking from a urban area to a special economic zone, and the amount has been invested for the purpose of purchasing plant and machinery to set up the industrial undertaking in the shifted SEZ, the exemption on that much part of amount reinvested can be claimed under Sec 54GA

27. Exemption under Sec 54D is available for capital gains on --------------

   a) Transfer of certain listed securities and units of mutual fund
   b) Compulsory acquisition of land and building forming part of industrial undertaking
   c) Sale and repurchase of agricultural land within two years from the date of transfer.

   Answer: a) compulsory acquisition of land and building forming a part of industrial undertaking.- If the assesse transferred a land and building, which he was using as a industrial undertaking, and used the proceeds to purchase or construct another land and building for the same purpose within the specified period of time, the portion so utilized not exceeding the proceeds received will be exempt under Sec 54D