AUDITING AND TAXATION

INCOME UNDER THE HEAD SALARY

MULTIPLE CHOICE QUESTIONS

1. Income from Salary includes -----------------

   a) Monetary and non-monetary benefits due from employer to employee
   b) Monetary and non-monetary benefits paid to employee by the employer
   c) Monetary and non-monetary benefits paid by partnership firm to its partners

   **Answer:** c) Monetary and non-monetary benefits due from employer to employee - Basic Pay, allowances, perquisites

2. Mr. Mohan working with Mohit Applliances & Co, receives Rupees 625000/- as salary and the employer has deducted Rs62500/- towards TDS but not yet remitted to Income Tax Authority. Find the amount of salary which Mr. Mohan has to fill in his return. An amount of Rs6500/-Interest on 5 years Tax Saver FD has accrued in the current PY.

   a) Rs 6,25,000/-
   b) Rs 6,99,000/-
   c) Rs 6,31,500/-

   **Answer:** a) Rs. 6,99,000/- The total amount due, received and deducted will have to be included in the return.

3. Mr. Kaustub, who retired in 2018, shifted to Tokyo. He was an employee in Tokyo and receiving Salary. Additionally he also was paid pension from Indian Company. Which Income will be taxable in India, under the head Salary.

   a) Both amount of salary in Tokyo and the pension from Indian Company.
   b) Pension will be taxable in India under the head Income from Salary
   c) None of the above

   **Answer:** b) Pension arising and payable out of Indian company only can be taxed under the head salary.
4. Mr. Kamlesh is a Government Employee earning a salary of Rs680000 pa; for the PY 18-19. He received an amount of Rs120000/- as additional pay pertaining to PY16-17 in the FY 18-19. What will the total income of Mr. Kamlesh if his income from other sources is Rs180000/- for PY 18-19.

   a) Rs. 840000/-  
   b) Rs. 980000/-  
   c) Rs. 680000/-  

   Answer: b) Rs 980000/- Salary pertaining to previous years but received during the year which was not due in the previous year will be taxable in the year it is received.

5. Mr. X receives a gross salary of Rs50000/- per month. In the PY 19-20, the salary of February and March 2020 was paid in the month of May 2020. Find the total taxable salary of Mr. X for the AY 20-21

   a) Rs 600000/-  
   b) Rs 500000/-  
   c) Rs 100000/-  

   Answer: a) Rs 600000/- Salary has to be the amount due and not the amount actually received.

6. Mr. Y is given Rs 6000 pm as additional amount along with basic salary for the purpose of meeting the cost of travel between the office and his residence. Rs 72000/- should be shown as------------------  

   a) Perquisite  
   b) Allowance  
   c) Bonus  

   Answer: b) Allowance – Allowance refers to any additional amount given regularly to meet some specific expenditure.
7. Mr. Z working in XYZ Ltd, along with the salary was offered accommodation at a concessional rate. The compensation can be termed as ----------------- under the head income from salary

   a) Allowance
   b) Bonus
   c) Perquisite

**Answer:** c) Perquisite – Any benefit which not in cash but in kind can be termed as a perk or perquisite. Rent free accommodation, or accommodation at a concessional rate is an example of a perquisite.

8. “Salary” includes Basic pay + DA (part forming for retirement benefit) + commission at fixed % in the calculation of -----------------

   a) Rent free accommodation
   b) House Rent Allowance
   c) None of the above

**Answer:** b) HRA – for the purpose of calculating HRA salary includes Basic pay plus Dearness Allowance plus fixed percentage of commission.

9. Salary for the purpose of Entertainment allowance includes------------------

   a) Basic Pay
   b) Basic Pay + DA + fixed % of Commission
   c) Basic Pay + DA + Bonus + Commission + All taxable Allowances

**Answer:** a) 20% of the Basic Pay only is considered for deduction for Government Employees.

10. Salary for the purpose of employer’s contribution to RPF includes-----------------

    a) Basic Pay
b) Basic Pay + DA + fixed % of Commission  
c) Basic Pay + DA + Bonus + Commission + All taxable Allowances

Answer: b) Basic Pay + DA + fixed % of Commission – 12% of Salary is exempt for employer’s contribution to RPF. Salary will include Basic Pay plus part of Dearness Allowance forming the part of retirement benefit plus fixed percentage of commission.

11. Employer’s contribution to the following -------------- provident fund can be exempted upto 12% of Salary

   a) Recognized  
   b) Unrecognized  
   c) Public provident fund

Answer: a) Recognized Provident Fund (RPF) – Contribution made to RPF by the employer is exempted upto 12% of salary.

12. Employer’s contribution to the following -------------- provident fund is fully exempt from tax

   a) Recognized  
   b) Unrecognized  
   c) Statutory

Answer: a) Statutory provident fund – Usually Government as an employer and selected other companies have to statutorily contribute to statutory provident fund. Entire contribution made by the central Government to such contributions is fully exempt from tax.

13. The following amounts, pertaining to Statutory Provident Fund are fully exempt from tax.

   a) Employer’s contribution to Statutory Provident Fund.  
   b) Interest credited to SPF, Lump sum amount payable on retirement.  
   c) Both a and b
Answer: c) Both a and b. - It is EEE – amount contributed, interest earned on it and the maturity amount all are exempt in the hands of employee.

14. An Employer does not contribute to the following---------------------- provident fund for his employees

   a) Recognized or Unrecognized Provident Fund
   b) Public Provident Fund
   c) Statutory Provident Fund

   Answer: c) Public Provident Fund – An employer can contribute to Recognized or unrecognized provident fund. Government Employers contribute to Statutory Provident Fund. Any person whether an employee or otherwise can contribute a maximum of Rupees One lakh fifty thousand pa. in a PPF.

15. The maximum amount of exemption an Government Employee can avail for Entertainment Allowance p.a is ----------------

   a) Rupees Five Thousand
   b) 20% of Basic Pay
   c) Actual amount of Allowance spent for Entertainment purpose

   Answer: b) Rupees Five Thousand only- maximum of the above three is exempt for entertainment allowance restricted to Government Employees only.

16. Mr. X working in Reliance Industries along with Basic pay and other allowance also received Rs1000/- pm for entertainment expenses. How much of entertainment allowance can he exempt under his salary. He spent Rupees Five thousand towards entertainment in the year.

   a) Rupees Twelve Thousand
   b) Nil
   c) Rupees Five Thousand
Answer: b) Nil – There is no exemption for non-Government Employees.

17. An employee can claim exemption on transport allowance upto a maximum of ******* pa.
   a) Rupees Nineteen Thousand Two Hundred
   b) Rupees Nine Thousand Six Hundred
   c) Nil

   Answer: c) Nil – Exemption on Transport Allowance is disallowed as employees can claim Standard Deduction under Sec 16(i)

18. Mr. Z working in a private organization was given education allowance of Rs 400 per month per child for his three children. Maximum amount he can claim exemption for children education allowance is *******.
   a) Rupees Two Thousand Four Hundred p.a.
   b) Rupees Four Thousand Eight Hundred p.a.
   c) Rupees Three Thousand Six Hundred p.a.

   Answer: c) Rupees Two Thousand Four Hundred p.a - Rs100 per month per child for a maximum of two children is only exempted.

19. Mr. Fernandes an employee of a semi-Government firm received Hostel allowance of Rs 15000/- for his three children. What amount of exemption can he claim under hostel expenditure allowance?
   a) Rupees Fifteen Thousand p.a
   b) Rupees Seven Thousand Two Hundred p.a
   c) Rupees Ten Thousand Eight Hundred p.a

   Answer b): Rupees Seven Thousand Two Hundred p.a - Maximum of Rupees Three Hundred per month per child for a maximum of two children.
20. Following are examples of fully Taxable Allowances
   
a) Servant Allowance, Tiffin Allowance, Fixed Medical Allowance.
   b) Child Education Allowance, Hostel Expenditure Allowance
   c) None of the above

   Answer a): Servant, Tiffin, Medical Allowances are fully taxable. There is no exemption on these allowances. The amount needs to be included in the salary.

21. XYZ Limited had a practice of distributing a silver medal worth Rs. 4999/- to its employees on the occasion of Diwali. How would Mr. X include the same in the computation of his income.

   a) Not include in the computation of Income under any head.
   b) Will include under the Head Income from Other Sources
   c) Will include under the Head Income from Salaries as a perquisite.

   Answer a): Gifts made in kind not exceeding Rs. 5000/- (total amount of all gifts not exceeding in the previous year) are exempt and not taxable, in the hands of the employee.

22. XYZ Limited had a practice of distributing a Gift Cheque (bearer) worth Rs. 4001/- to its employees on the occasion of Marriage. How would Mr. X include the same in the computation of his income.

   a) Not include in the computation of Income under any head.
   b) Will include under the Head Income from Other Sources
   c) Will include under the Head Income from Salaries as a perquisite.

   Answer a): Gifts made in kind not exceeding Rs. 5000/- (total amount of all gifts not exceeding in the previous year) are exempt and not taxable, in the hands of the employee. Mr.X has received a bearer cheque; which is equivalent to cash. Any amount paid in cash will form a part of salary. Hence Mr. X has to include it as perquisite under the head Income from Salary.