

REVISION TEST PAPERS

FINAL COURSE

GROUP – II

MAY, 2019



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

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Contents

	<i>Page Nos.</i>
Objective & Approach	<i>i – vi</i>
<i>Objective of Revision Test Paper</i>	<i>i</i>
<i>Planning & Preparing for Examination</i>	<i>ii</i>
<i>Subject-wise Guidance – An Overview</i>	<i>iii</i>
Paper-wise RTPs	
Paper 5: Advanced Management Accounting	1 – 24
Paper 6: Information Systems Control and Audit.....	25 – 43
Paper 7: Direct Tax Laws.....	44 – 85
Paper 8: Indirect Tax Laws	86 – 119
Relevant Finance Act/Notifications/Circulars etc. applicable for May, 2019 Examination	120 – 122

REVISION TEST PAPER, MAY 2019 – OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

- (i) Planning and preparing for examination
- (ii) Subject-wise guidance – An overview
- (iii) Updates applicable for a particular exam in the relevant subjects
- (iv) Topic-wise questions and detailed answers thereof in respect of each paper
- (v) Relevant publications/announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the

questions given in the RTP, students ought to have thoroughly read the Study Materials and gone through the Suggested Answers of the earlier examinations. It is important to remember that there can be large number of other complex questions which are not covered in the RTP. In fact, questions contained herein are only illustrative in nature.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website www.icai.org under the BOS knowledge portal in students section for downloading.

II. Planning and preparing for examination

Ideally, when you receive the RTP, you should have completed the entire syllabus of all the subjects at least once. RTP is an effective tool to revise and refresh your concepts and knowledge gained through the first round of study of the whole course. When the RTP reaches your hand, your study plan should have been completed as under:

❖ *Study Materials*

You must have finished reading the relevant Study Materials of all the subjects. Make sure you go through the Study Material as they cover the syllabus comprehensively and solve each and every question/illustration given therein to have a grasp of the application and computational aspects of the syllabus as well. .

❖ *Suggested Answers*

Giving an honest attempt to solve the previous attempts suggested answers on your own, will give you a flavour of the pattern of question paper and type of questions which are being asked in the examination.

After completing the above process, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTPs are provided to you to check your preparation standards and hence it must be solved on your own in a time-bound manner.

The stratagem and the fine points requiring careful consideration in respect of preparation for the CA examinations are explained in comprehensive details in BOS' publication "How to face CA Examinations? A Matrix of Winning Strategies". The publication may be referred to when you start preparing for a subject.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question. Keep sometime for checking the answers as well.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

III. Subject-wise Guidance – An Overview**PAPER - 5: ADVANCED MANAGEMENT ACCOUNTING**

The Revision Test paper on Advanced Management Accounting covers 16 questions on the following topics:

Q No	Topic	About the Problem
1.	Limiting Factor	Question on basic concepts of 'Limiting Factor'
2.	Break-even Point	Calculation of the 'Break-even Point' <i>in batches</i> and appropriate 'Profitability Statement'
3.	Flexible Budget	Question on preparation of 'Flexible Budget'

4.	Pareto Analysis	Practical Question on 'Pareto Analysis'
5.	Standard Costing	Reconciliation of 'Budget Profit Vs Actual Profit' through 'Marginal Costing' approach
6.	Decision Making	Limiting Factor ' <i>Outsourcing Decision</i> '
7.	Cost plus Pricing	Pricing when Demand is Price Sensitive
8.	Transfer Pricing	Calculation of 'Transfer Price'
9.	Linear Programming	Formulation of 'Linear Programming' problem
10.	Transportation Problem	Maximization Problem
11.	PERT and CPM	Theoretical Question on basic concepts of 'PERT & CPM'
12.	Simulation	Simulation of Cash Flow Projection
13.	Learning Curve	Pricing of a Product, 'Learning Curve Rate' not given
14.	Learning Curve	Basic Concepts of 'Learning Curve'
15.	Target Costing	Computation of 'Cost Reduction'
16.	Cost Classification	Basic Concepts of 'Cost'

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

The RTP of ISCA relevant for May, 2019 examination consists of total 25 questions. Questions have been taken from the full syllabus which is divided into eight chapters in the study material. The chapter name is also clearly indicated before each question. Question numbers 1 to 8 are Multiple Choice Questions (MCQ) based on each chapter. Each MCQ has four options out of which only one option is correct. Remaining questions 9 to 24 are Descriptive answer type questions whereas Question no. 25 is Scenario based question. These questions are based on different concepts that are selected from the entire syllabus. All the questions are based on the practical oriented topics such as System Development Life Cycle (SDLC), Business Continuity Planning; Emerging Technologies, Information Security Standards and IT Act, 2000 etc.

Students should read the given questions carefully and identify the relevant concept/s based on which the questions are to be answered. Here, we would also like to mention that RTP is only to refresh student's knowledge. This should be used by students as last minute self-assessment tool before appearing in the examination.

Students may pick-up a question from RTP, and try to write the answer by his/her own understanding. Afterwards, they should go through the answer of that question given in the RTP. By comparing both the answers, they will be able to understand the variations, if any in their answers. In this way, RTP may help them in introspection, up to some extent.

PAPER 7: DIRECT TAX LAWS

The provisions of direct tax laws, as amended by the Finance Act, 2018, and significant notifications, circulars and other legislative amendments upto 31.10.2018 are relevant for May, 2019 Examination. The relevant assessment year for May, 2019 examination is A.Y.2019-20.

The September, 2018 edition of the Study Material for Final (New) Course Paper 7 is applicable for Final (Old) Course Paper 7 also with the exception of Chapters 6, 7 and 8 of Module 4. Thus, all chapters of Modules 1, 2, 3 and chapters 1 to 5 of Module 4 of the Study Material for Final (New) Course Paper 7 would be applicable for Final (Old) Course Paper 7 also. However, whereas the syllabus of Final (New) Paper 7 is divided into two parts, namely, Direct Tax Laws and International Taxation, there is no such bifurcation in Final (Old) Paper 7.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the exercise questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding. Read the case laws given at the end of each chapter under "Significant Select Cases".

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

Before you work out the questions in Section B of the RTP, do read the Statutory Update given in Section A. The Judicial Update would be webhosted at the BoS Knowledge Portal on the Institute's website www.icai.org. Students may refer to the January, 2019 issue of the Students' Journal "The Chartered Accountant Student" for a quick recap of Chapters 1 to 5 discussed in Module 4 of the Study Material.

PAPER – 8: INDIRECT TAX LAWS

For Paper 8: Indirect Tax Laws, the following are applicable for May 2019 examination:

- (i) The provisions of CGST Act, 2017 and IGST Act, 2017, including significant circulars and notifications issued up to 31st October 2018.
- (ii) The provisions of the Customs Act, 1962, as amended by the Finance Act, 2018, including significant notifications and circulars issued up to 31st October 2018.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of "**Study Guidelines for May 2019 Examination**". The same is given as part of "Relevant Finance Act/Notifications/Circulars etc. applicable for May 2019 Examination" appended at the end of this Revision Test Paper.

The subject of Indirect Tax Laws at the Final level is divided into two parts, namely, Part I: Goods and Services Tax for 75 marks and Part II: Customs & Foreign Trade Policy (FTP) for 25 marks.

Students may note that October 2018 Edition of the Study Material for Final (New Course) Paper 8 is applicable for Final (Old) Course Paper 8 also. The Study Material has been divided into four modules for ease of handling by students. The first three modules are on GST and the fourth module is on Customs and FTP.

The subject matter of Part I: Goods and Services Tax of this Study Material is based on the provisions of the Central Goods and Services Tax Act, 2017 and Integrated Goods and Services Act, 2017 as amended up to 31.10.2018.

The content discussed in Part II: Customs & FTP is based on the customs law as amended by the Finance Act, 2018 and significant notifications and circulars issued till 30.04.2018 and the latest amendments are given in ***bold and italics*** therein.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding. Read the case laws given at the end of each chapter under "Significant Select Cases" in module on customs laws.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. Detailed answers have been provided for the questions given in this RTP to facilitate in depth understanding and appreciation of the provisions of the indirect tax laws in problem solving.

It may be noted that the Statutory Update comprising of the significant legislative developments by way of notifications/circulars issued from 01.05.2018 to 31.10.2018 for Customs and FTP will be web-hosted at the BoS Knowledge Portal on the ICAI's website www.icai.org.

PAPER – 5 : ADVANCED MANAGEMENT ACCOUNTING

QUESTIONS

Limiting Factor

- List out the basis for deciding the priority of selecting the best product in the different circumstances stated below:
 - When maximum sales (in value) is a limiting factor.
 - When raw-material is a limiting factor.
 - When labour hour is a limiting factor.
 - When there is a heavy demand for the product.

Break-even Point (Batches)

- DRB Ltd. is a leading Home Appliances manufacturer. The company uses just-in-time manufacturing process, thereby having no inventory. Manufacturing is done in batch size of 100 units which cannot be altered without significant cost implications. Although the products are manufactured in batches of 100 units, they are sold as single units at the market price. Due to fierce competition in the market, the company is forced to follow market price of each product. The following table provides the financial results of its four unique products:

	D1	D2	D3	D4	Total
Sales (units)	2,00,000	2,60,000	1,60,000	3,00,000	
	(₹)	(₹)	(₹)	(₹)	(₹)
Revenue	26,00,000	45,20,000	42,40,000	32,00,000	145,60,000
Less: Material Cost	6,00,000	18,20,000	18,80,000	10,00,000	53,00,000
Less: Labour Cost	8,00,000	20,80,000	12,80,000	12,00,000	53,60,000
Less: Overheads	8,00,000	7,80,000	3,20,000	12,00,000	31,00,000
Profit / (Loss)	4,00,000	(1,60,000)	7,60,000	(2,00,000)	8,00,000

Since, company is concerned about loss in manufacturing and selling of two products so, it has approached you to clear picture on its products and costs. You have conducted a detailed investigation whose findings are below:

The overhead absorption rate of ₹2 per machine hour has been used to allocate overheads into the above product costs. Further analysis of the overhead cost shows that some of it is caused by the number of machine hours used, some is caused by the number of batches produced and some are product specific fixed overheads that would be avoided if the product were discontinued. Other general fixed overhead costs would be avoided only by the closure of the factory. Numeric details are summarized below:

	₹	₹
Machine hour related		6,20,000
Batch related		4,60,000
Product specific fixed overhead:		
D ₁	10,00,000	
D ₂	1,00,000	
D ₃	2,00,000	
D ₄	<u>1,00,000</u>	14,00,000
General fixed overheads.....		<u>6,20,000</u>
		31,00,000

The other information is as follows:-

	D ₁	D ₂	D ₃	D ₄	Total
Machine Hours	4,00,000	3,90,000	1,60,000	6,00,000	15,50,000
Labour Hours	1,00,000	2,60,000	1,60,000	1,50,000	6,70,000

Required

- (i) Prepare a profitability statement that is more useful for decision making than the profit statement prepared by DRB Ltd.
- (ii) Calculate the break-even volume in batches and also in approximate units for Product 'D₁'.

Flexible Budget

3. XEH Ltd. Had prepared fixed and flexible budget for the financial year 2017-18 as under:

	Fixed Budget for full capacity (₹)	Flexible Budget for 75% level (₹)
Sales	13,50,000	10,12,500
Direct Material	4,25,000	3,18,750
Direct Labour	1,85,000	1,38,750
Variable Overheads	2,15,000	1,61,250
Semi-Variable Overheads	3,65,000	3,23,750
Profit	1,60,000	70,000

After the closing of the financial year 2017-18, total actual sales stood at ₹11,07,000 and there was a favourable sales price variance of ₹17,000 (F).

Required

Prepare a flexible budget for the actual level of sales.

Pareto Analysis

4. The following information is given about the type of defects during a production period and the frequencies of their occurrence in a spectacle manufacturing company.

Defect	No. of items
End Frame not equidistant from the centre	10
Non-uniform grinding of lenses	60
Power mismatches	20
Scratches on the surface	110
Spots / Stains on lenses	5
Rough edges of lenses	70
Frame colours-shade differences	25

Required

Construct a frequency table so that a Pareto Chart can be constructed for the defect type. Which areas should the company focus on?

Standard Costing

5. Sapporo Manufacturing Co. (SMC) is a leading consumer goods company. The budgeted and actual data of SMC for the year 2017-18 are as follows:-

Particulars	Budget	Actual	Variance
Sales / Production (units)	2,00,000	1,65,000	(35,000)
Sales (₹)	21,00,000	16,92,900	(4,07,100)
Less: Variable Costs (₹)	12,66,000	10,74,150	1,91,850
Less: Fixed Costs (₹)	3,15,000	3,30,000	(15,000)
Profit	5,19,000	2,88,750	(2,30,250)

The budgeted data shown in the table is based on the assumption that total market size would be 4,00,000 units but it turned out to be 3,75,000 units.

Required

Prepare a statement showing reconciliation of budget profit to actual profit through marginal costing approach for the year 2017-18 in as much detail as possible.

Decision Making

6. A company manufactures three components, A, B and C. these components pass through machines P and Q. The machine hour capacity of Q is limited to 7,800 hours a month. The

company is interested in fulfilling the market demand to retain its market share. The following information is given:

		A	B	C
Demand (units/ month)		1,200	1,200	1,500
Variable cost (₹ / unit)		187	215	111
Fixed cost (₹/ unit) (at normal capacity utilization)		115	115	55
Hours per unit	P	2	2	1½
	Q	3	3	1

Component B has to be made by the company. There is a supplier available for components A and C at ₹ 280 and ₹ 161 per unit respectively.

Required

- Which component(s) and in what quantities should be purchased to minimize costs?
- From a financial perspective, what do you need to ensure in order to justify your answer in (i) above?

Cost Plus Pricing

7. The budgeted cost data of a product manufactured by XYZ Co. Ltd. is furnished as below:

Budgeted units to be produced	2,00,000
Variable cost (₹)	32 per unit
Fixed cost (₹)	16 lacs

It is proposed to adopt cost plus pricing approach with a mark-up of 25% on full budgeted cost basis.

However, research by the marketing department indicates that demand of the product in the market is price sensitive. The likely market responses are as follows:

Selling price (₹ per unit)	44	48	50	56	60
Annual Demand (units)	1,68,000	1,52,000	1,40,000	1,28,000	1,08,000

Required

Analyse the above situation and determine the best course of action.

Transfer Pricing

8. AWB Ltd. has two divisions Division W and Division B. Division W produces product Z, which it sells to external market and also to Division B. Divisions in the AWB Ltd. are treated as profit centres and divisions are given autonomy to set transfer prices and to choose their supplier. Performance of each division measured on the basis of target profit given for each period.

Division W can produce 1,00,000 units of product Z at full capacity. Demand for product Z in the external market is for 70,000 units only at selling price of ₹2,500 per unit. To produce product Z Division W incurs ₹1,600 as variable cost per unit and total fixed overhead of ₹4,00,00,000. Division W has employed ₹12,00,00,000 as working capital, working capital is financed by cash credit facility provided by its lender bank @ 11.50% p.a. Division W has been given a profit target of ₹2,50,00,000 for the year.

Division B has found two other suppliers C Ltd and H Ltd. who are agreed to supply product Z.

Division B has requested a quotation for 40,000 units of product Z from Division W.

Required

- (i) Calculate the transfer price per unit of product Z that Division W should quote in order to meet target profit for the year.
- (ii) Calculate the two prices Division W would have to quote to Division B, if it became AWB Ltd. policy to quote transfer prices based on opportunity costs.

Linear Programming

9. The manufacturing company has 100 kg of A, 180 kg of B and 120 kg of C ingredients available per month. Company can use these materials to make three basic products namely 5-10-5, 5-5-10 and 20-5-10, where the numbers in each case represent the percentage of weight of A, B and C respectively in each of products. The cost of these raw materials are as follows:

Ingredient	Cost per Kg. (₹)
A	64
B	16
C	40
Inert Ingredients	16

Selling price of these products are ₹32.60, ₹34.80, and ₹36.00 per Kg, respectively. There is capacity restriction of the company product 5-10-5, so that company cannot produce more than 30 Kg per month.

Required

Formulate this problem as an LP model to determine the productions (in Kg.) of each product which will maximise its monthly profit.

Note: Formulate Only

Transportation Problem

10. Coupers Partners a leading CA firm has three managers. Each manager can work up to 176 hours during the next month, during which time three assignments must be completed. Tax Accounting (TA) Assignment will take 143 hours, Tax Performance Advisory (TPA) will

take 154 hours, and Global Compliance & Reporting (GCR) will take 176 hours. The amount per hour that can be billed for assigning each manager to each assignment is given below:

Manager	Assignment		
	TA (₹)	TPA (₹)	GCR (₹)
C ₁	1,800	2,250	2,850
C ₂	2,100	1,950	1,800
C ₃	2,400	2,100	2,250

Required

Formulate this as a transportation problem and find the optimal solution. Also find out the maximum total billings during the next month.

Note: A manager may be involved in more than one assignment.

PERT and CPM

11. State the Validity of following statements along with the reasons:
- Two activities have common predecessor and successor activities. So, they can have common initial and final nodes.
 - In respect of any activity whether real or dummy, the terminal node should bear a number higher than the initial node number.
 - The difference between the latest event time and the earliest event time is termed as free float.
 - For every critical activity in a network, the earliest start and the earliest finish time as well as the latest finish time and the latest start time are the same.
 - The optimal duration of a project is the minimum time in which it can be completed.
 - Resource leveling aims at smoothening of the resource usage rate without changing the project duration.

Simulation

12. Finance Controller of Dunk Limited has drawn the following projections with probability distribution:

Raw Material		Wages & Other Variable Overheads		Sales	
₹ in 000	Probability	₹ in 000	Probability	₹ in 000	Probability
08 – 10	0.2	11 – 13	0.3	34 – 38	0.1
10 – 12	0.3	13 – 15	0.5	38 – 42	0.3

12 – 14	0.3	15 – 17	0.2	42 – 46	0.4
14 – 16	0.2			46 – 50	0.2

Opening cash balance is ₹40,000 and fixed cost is estimated at ₹15,000 per month.

Required

Simulate cash flow projection and expected cash balance at the end of the sixth month. Use the following single digit random numbers.

Raw Material	4 3 1 0 4 6
Wages & Other Variable Overheads	2 7 9 1 8 9
Sales	0 6 6 0 2 8

Learning Curve

13. Marketing manager of AV Ltd. has conducted a market research on the price-demand relationship for its consumer durable product 'K-2'. K-2 is a recently launched product. The price-demand pattern will be as follows:

Price per unit (₹)	Demand (units)
11,100	1,000
10,700	2,000
9,600	3,000
8,700	4,000

K-2 is produced in batches of 1,000 units. Production manager of AV Ltd. has also researched and studied the production pattern and has believe that 50% of the variable manufacturing cost would have learning and experience curve effect. This learning & experience curve effect will be continued upto 4,000 units of production at a constant rate. But after 4,000 units of production, unit variable manufacturing cost would be equal to the unit cost at the 4th batch. The manufacturing unit cost of the first batch will be ₹4,400 of which only 50% is subjected to learning and experience curve effect. The average unit variable cost of all 4 batches will be ₹4,120.

Required

- Calculate the rate of learning that has been expected by the Production manager.
- Calculate the price at which AV Ltd. should sell the K-2 in order to maximise its contribution.

Note

$$\log 0.93 = -0.0315, \log 2 = 0.3010, 2^{-0.1047} = 0.9299, 3^{-0.1047} = 0.8913, 4^{-0.1047} = 0.8649$$

14. State whether the learning curve theory can be applied to the following independent situations briefly justifying your decision:
- A labour intensive sculpted product is carved from the metal provided to the staff. The metal is sourced from different suppliers since it is scarce. The alloy composition of the input metal is quite different among the suppliers.
 - Pieces of hand-made furniture are assembled by the company in a far off location. The labourers do not know anything about the final product which utilizes their work. As a matter of further precaution, rotation of labour is done frequently.
 - Skilled workers have been employed for a long time. The company has adequate market for the craft pieces done by these experts.
 - A company finds that it always has an adverse usage of indirect material. It wants to apply learning curve theory to improve the way standards have been set.

Target Costing

15. A toy company 'T' expects to successfully launch ToyZ based on a film character. T must pay 15% royalty on the selling price to the film company. 'T' targets a selling price of ₹ 100 per toy and profit of 25% selling price.

The following are the cost data forecast:

	₹/toy
Component A	8.50
Component B	7.00
Labour: 0.4 hr. @ ₹ 60 per hr	24.00
Product specific overheads	13.50

In addition, each toy requires 0.6 kg of other materials, which are supplied at a cost of ₹ 16 per kg with a normal 4% substandard quality which is not usable in the manufacture.

Required

Determine if the above cost structure is within the target cost. If not, what should be the extent of cost reduction?

Cost Classification

16. ANZB Financial Services Limited is an Indian banking and financial services company headquartered in Chennai, Tamil Nadu. Apart from lending to individuals, the company grants loans to micro, small and medium business enterprises. Listed below are several costs incurred in the loan division of ANZB Financial Services Limited.
- Remuneration of the loan division manager.
 - Cost of Printer Paper, File Folders, View Binders, Ink, Toner & Ribbons used in the loan division.

- (iii) Cost of the division’s MacBook Pro purchased by the loan division manager last year.
- (iv) Cost of advertising in business newspaper by the bank, which is allocated to the loan division.

Cost Classification

Controllable by the loan division manager	Direct cost of the loan division	Sunk Cost
Uncontrollable by the loan division manager	Indirect Cost of the loan division	Out of Pocket Cost

Required

For each Cost, indicate which of the above mentioned Cost Classification best describe the cost.

Note

More than one classification may apply to the same cost item.

SUGGESTED ANSWERS/ HINTS

1. Limiting Factor

Case	Basis for Selecting Priority of Product
If maximum sales (in value) is a limiting factor	Profit Volume Ratio
If raw material is a limiting factor	Contribution per unit of raw material required to produce one unit of a product
If labour hour is a limiting factor	Contribution per unit of labour hour required to produce one unit of a product
If there is a heavy demand for the product	Profit Volume Ratio

2. (i) Statement of Profitability of DRB Ltd

	Products (Amount in ₹)				
	D ₁	D ₂	D ₃	D ₄	Total
Sales	26,00,000	45,20,000	42,40,000	32,00,000	1,45,60,000
Direct Materials	6,00,000	18,20,000	18,80,000	10,00,000	53,00,000
Direct Wages	8,00,000	20,80,000	12,80,000	12,00,000	53,60,000
Overheads (W.N.2):					
Machine Related	1,60,000	1,56,000	64,000	2,40,000	6,20,000
Batch Related	1,00,000	1,30,000	80,000	1,50,000	4,60,000

Contribution	9,40,000	3,34,000	9,36,000	6,10,000	28,20,000
Product Specific Fixed Overheads	10,00,000	1,00,000	2,00,000	1,00,000	14,00,000
Gross Profit	(60,000)	2,34,000	7,36,000	5,10,000	14,20,000
General Fixed Overheads					6,20,000
Profit					8,00,000

(ii) Break-even Point

$$\begin{aligned}
 \text{Total Sale Value of Product 'D}_1\text{'} &= ₹26,00,000 \\
 \text{Total Contribution of Product 'D}_1\text{' } &= ₹9,40,000 \\
 \text{Specific Fixed Overheads (Product D}_1\text{)} &= ₹10,00,000 \\
 \text{Break-even Sales (₹)} &= \frac{\text{Specific Fixed Cost}}{\text{Total Contribution}} \times \text{Total Sales Value} \\
 &= \frac{₹10,00,000}{₹9,40,000} \times ₹26,00,000 \\
 &= ₹27,65,957.45 \\
 \text{Break-even Sales (units)} &= \frac{₹27,65,957.45}{₹13.00} = 2,12,766 \text{ units}
 \end{aligned}$$

However, production must be done in batches of 100 units. Therefore, **2,128 batches** are required for break even. Due to the production in batches, 34 units (2,128 batches × 100 units – 2,12,766 units) would be produced extra. These 34 units would add extra cost ₹282.20 (34 units × ₹8.3*). Accordingly, break-even units as calculated above will increase by 22 units $\left(\frac{₹282.20}{₹13.00}\right)$.

$$(*) \left(\frac{₹6,00,000 + ₹8,00,000 + ₹1,60,000 + ₹1,00,000}{2,00,000 \text{ units}} \right)$$

Break-even units of product 'D₁' is 2,12,788 units (2,12,766 units + 22 units).

Workings**W.N.-1****Calculation Showing Overhead Rates**

Overhead's Related Factors	Overhead Cost (₹) [a]	Total No. of Units of Factors [b]	Overhead Rate (₹) [a] / [b]
Machining Hours	6,20,000	15,50,000 hrs.	0.40
Batch Production	4,60,000	9,200 batches	50.00

W.N.-2

Statement Showing - Overhead Costs Related to Product

Particulars	D1	D2	D3	D4
Machining hrs. related overheads	₹ 1,60,000 (4,00,000 hrs × ₹0.40)	₹ 1,56,000 (3,90,000 hrs × ₹0.40)	₹ 64,000 (1,60,000 hrs × ₹0.40)	₹ 2,40,000 (6,00,000 hrs × ₹0.40)
Batch related overheads	₹1,00,000 (2,000 batches × ₹50)	₹1,30,000 (2,600 batches × ₹50)	₹80,000 (1,600 batches × ₹50)	₹1,50,000 (3,000 batches × ₹50)

3. Working Notes

(1) Calculation of Actual Sales at Budgeted Prices

(₹)	
Actual Sales at Actual Price	11,07,000
Less: Sales Price Variance (F)	17,000
Actual Sales at Budgeted Prices	10,90,000

$$\begin{aligned} \text{Activity Level} &= \frac{\text{Actual Sales at Budgeted Prices}}{\text{Budgeted Sales at Full Capacity}} \times 100 \\ &= \frac{₹10,90,000}{₹13,50,000} \times 100 \\ &= 80.74\% \end{aligned}$$

(2) Segregation of Fixed & Variable Cost Element from Semi-Variable Overheads

$$\begin{aligned} \text{Variable Overhead} &= \frac{\text{Overhead at Full Capacity} - \text{Overhead at 75\% Capacity}}{\text{Difference in Activity Level}} \\ &= \frac{₹3,65,000 - ₹3,23,750}{25} \\ &= ₹1,650 \\ \text{Fixed Overhead} &= \text{Total SV Overheads at 100\% Level} - \text{Variable Overheads at 100\% level} \\ &= ₹3,65,000 - (₹1,650 \times 100) \\ &= ₹2,00,000 \end{aligned}$$

Flexible Budget at 80.74% Activity Level

(Amount in ₹)	
Sales	10,90,000

<i>Less:</i>	
Direct Material (₹4,25,000 × 80.74..%)	3,43,148
Direct Labour (₹1,85,000 × 80.74..%)	1,49,370
Variable Overheads (₹2,15,000 × 80.74..%)	1,73,593
Semi-Variable Overheads	
Variable Cost (₹1,650 × 80.74..) [W.N.-2]	1,33,222
Fixed Cost [W.N.-2]	2,00,000
Profit	90,667

4. **Statement Showing “Pareto Analysis of Defects”**

Defect Type	No. of Items	% of Total Items	Cumulative Total
Scratches on the surface	110	36.67%	36.67%
Rough edges of lenses	70	23.33%	60.00%
Non-uniform grinding of lenses	60	20.00%	80.00%
Frame colours-shade differences	25	8.33%	88.33%
Power mismatches	20	6.67%	95.00%
End frame not equidistant from the centre	10	3.33%	98.33%
Spots/ Strain on lenses	5	1.67%	100.00%
	300	100.00%	

The company should focus on eliminating *scratches on the surface*, *rough edges of lenses* and *grinding of lenses* related defects which constitute 80% portion, according to Pareto Theory.

5. **Statement of Reconciliation - Budgeted Vs Actual Profit**

Particulars	₹
Budgeted Profit	5,19,000
<i>Less:</i> Sales Volume Contribution Planning Variance (Adverse)	52,125
<i>Less:</i> Sales Volume Contribution Operational Variance (Adverse)	93,825
<i>Less:</i> Sales Price Variance (Adverse)	39,600
<i>Less:</i> Variable Cost Variance (Adverse)	29,700
<i>Less:</i> Fixed Cost Variance (Adverse)	15,000
Actual Profit	2,88,750

Workings*Basic Workings*

Budgeted Market Share (in %)	=	$\frac{2,00,000\text{units}}{4,00,000\text{units}}$
	=	50%
Actual Market Share (in %)	=	$\frac{1,65,000\text{units}}{3,75,000\text{units}}$
	=	44%
Budgeted Contribution	=	₹21,00,000 – ₹12,66,000
	=	₹8,34,000
Average Budgeted Contribution (<i>per unit</i>)	=	$\frac{₹8,34,000}{₹2,00,000}$
	=	₹4.17
Budgeted Sales Price <i>per unit</i>	=	$\frac{₹21,00,000}{₹2,00,000}$
	=	₹10.50
Actual Sales Price <i>per unit</i>	=	$\frac{₹16,92,900}{₹1,65,000}$
	=	₹10.26
Standard Variable Cost <i>per unit</i>	=	$\frac{₹12,66,000}{₹2,00,000}$
	=	₹6.33
Actual Variable Cost <i>per unit</i>	=	$\frac{₹10,74,150}{₹1,65,000}$
	=	₹6.51

Calculation of Variances

Sales Variances:

Volume Contribution Planning*	=	Budgeted Market Share % × (Actual Industry Sales Quantity <i>in units</i> – Budgeted Industry Sales Quantity <i>in units</i>) × (Average Budgeted Contribution <i>per unit</i>)
	=	50% × (3,75,000 units – 4,00,000 units) × ₹4.17
	=	52,125 (A)

(*) *Market Size Variance*

$$\begin{aligned} \text{Volume Contribution Operational}^{**} &= (\text{Actual Market Share \%} - \text{Budgeted Market Share \%}) \times (\text{Actual Industry Sales Quantity in units}) \times (\text{Average Budgeted Contribution per unit}) \\ &= (44\% - 50\%) \times 3,75,000 \text{ units} \times ₹4.17 \\ &= 93,825 \text{ (A)} \end{aligned}$$

(**) *Market Share Variance*

$$\begin{aligned} \text{Price} &= \text{Actual Sales} - \text{Standard Sales} \\ &= \text{Actual Sales Quantity} \times (\text{Actual Price} - \text{Budgeted Price}) \\ &= 1,65,000 \text{ units} \times (₹10.26 - ₹10.50) = 39,600 \text{ (A)} \end{aligned}$$

Variable Cost Variances:

$$\begin{aligned} \text{Cost} &= \text{Standard Cost for Production} - \text{Actual Cost} \\ &= \text{Actual Production} \times (\text{Standard Cost per unit} - \text{Actual Cost per unit}) \\ &= 1,65,000 \text{ units} \times (₹6.33 - ₹6.51) \\ &= ₹29,700 \text{ (A)} \end{aligned}$$

Fixed Cost Variances:

$$\begin{aligned} \text{Expenditure} &= \text{Budgeted Fixed Cost} - \text{Actual Fixed Cost} \\ &= ₹3,15,000 - ₹3,30,000 \\ &= ₹15,000 \text{ (A)} \end{aligned}$$



Fixed Overhead Volume Variance does not arise in a Marginal Costing system

6. (i) **Statement Showing "Ranking for Manufacturing"**

	A (₹)	B (₹)	C (₹)
Demand	1,200	1,200	1,500
Buy Price	280	xxx	161
Less: Variable Cost	187	215	111
Saving in Cost per unit	93	xxx	50
Hrs. Required -"Q"	3	3	1
Saving in Cost per machine hour	31	xxx	50
Ranking	III	I	II

Statement Showing “Optimum Production Plan”

Product	Units	Machine Hrs./ Unit	Machine Hrs. Required	Balance Hrs.
B	1,200	3	3,600	4,200
C	1,500	1	1,500	2,700
A (Balance)	900*	3	2,700	---

$$* \left(\frac{2,700 \text{ hrs.}}{3 \text{ hrs.}} \right)$$

Balance quantity of A, 300 units to be purchased from outside.

(ii) Statement Showing “Conditions for Justification (i)”

	Product A	Product C
Buy Price	< 337 Or	> 142
Variable Cost	> 130 Or	< 130

7. Analysis of Cost plus Pricing Approach

The company has a plan to produce 2,00,000 units and it proposed to adopt Cost plus Pricing approach with a markup of 25% on full budgeted cost. To achieve this pricing policy, the company has to sell its product at the price calculated below:

Qty.	2,00,000 units
Variable Cost (2,00,000 units × ₹ 32)	64,00,000
Add: Fixed Cost	16,00,000
Total Budgeted Cost	80,00,000
Add: Profit (25% of ₹ 80,00,000)	20,00,000
Revenue (need to earn)	1,00,00,000
Selling Price per unit $\left(\frac{₹ 1,00,00,000}{2,00,000 \text{ units}} \right)$	50 p.u.

However, at selling price ₹ 50 per unit, the company can sell 1,40,000 units only, which is 60,000 units less than the budgeted production units.

After analyzing the price-demand pattern in the market (which is price sensitive), to sell all the budgeted units market price needs to be further lowered, which might be lower than the total cost of production.

Statement Showing “Profit at Different Demand & Price Levels”

	I	II	III	IV	Budgeted
Qty. (units)	1,68,000	1,52,000	1,40,000	1,28,000	1,08,000

	₹	₹	₹	₹	₹
Sales	73,92,000	72,96,000	70,00,000	71,68,000	64,80,000
Less: Variable Cost	53,76,000	48,64,000	44,80,000	40,96,000	34,56,000
Total Contribution	20,16,000	24,32,000	25,20,000	30,72,000	30,24,000
Less: Fixed Cost	16,00,000	16,00,000	16,00,000	16,00,000	16,00,000
Profit (₹)	4,16,000	8,32,000	9,20,000	14,72,000	14,24,000
Profit (% on total cost)	5.96	12.87	15.13	25.84%	28.16%

Determination of the Best Course of Action

- (i) Taking the above calculation and analysis into account, the company should produce and sell 1,28,000 units at ₹ 56. At this price company will not only be able to achieve its desired mark up of 25% on the total cost but can earn maximum contribution as compared to other even higher selling price.
- (ii) If the company wants to uphold its proposed pricing approach with the budgeted quantity, it should try to reduce its variable cost per unit for example by asking its supplier to provide a quantity discount on the materials purchased.
8. (i) **Transfer Price per unit of Product Z that Division W Should Quote in order to meet Target Profit**

Quotation for the 40,000 units of product Z should be such that meet Division W's target profit and interest cost on working capital. Therefore the minimum quote for product Z will be calculated as follows:

Particulars	Amount (₹)
Target Profit (given for the year)	2,50,00,000
Add: Interest Cost on Working Capital (₹12,00,00,000 @11.5%)	1,38,00,000
Required Profit	3,88,00,000
Add: Fixed Overhead	4,00,00,000
Target Contribution	7,88,00,000
Less: Contribution Earned --- External Sales {60,000 units × (₹2,500 – ₹1,600)}	5,40,00,000
Contribution Required – Internal Sales	2,48,00,000
Contribution per unit of Product Z (₹2,48,00,000 ÷ 40,000 units)	620
Transfer Price of Product Z to Division B (Variable Cost per unit + Contribution per unit)	2,220

(ii) The Two Transfer Prices Based on Opportunity Costs

For the 30,000 units (i.e. maximum capacity – maximum external market demand) at variable cost of production i.e. ₹1,600 per unit.

For the next 10,000 units (i.e. external market demand – maximum possible sale) at market selling price i.e. ₹2,500 per unit.

9. Let the P_1 , P_2 and P_3 be the three products to be manufactured. Then the data are as follows:

Products	Product ingredients			
	A	B	C	Inert Ingredients
P_1	5 %	10%	5%	80%
P_2	5%	5%	10%	80%
P_3	20%	5%	10%	65%
Cost per kg (₹)	64	16	40	16

Cost of Product P_1

$$= 5\% \times ₹64 + 10\% \times ₹16 + 5\% \times ₹40 + 80\% \times ₹16$$

$$= ₹19.60 \text{ per kg}$$

Cost of Product P_2

$$= 5\% \times ₹64 + 5\% \times ₹16 + 10\% \times ₹40 + 80\% \times ₹16$$

$$= ₹20.80 \text{ per kg.}$$

Cost of Product P_3

$$= 20\% \times ₹64 + 5\% \times ₹16 + 10\% \times ₹40 + 65\% \times ₹16$$

$$= ₹28.00 \text{ per kg.}$$

Let x_1 , x_2 , and x_3 be the quantity (in kg) of P_1 , P_2 , and P_3 respectively to be manufactured. The LP problem can be formulated:

Objective function:

$$\begin{aligned} \text{Maximise } Z &= (\text{Selling Price} - \text{Cost Price}) \times \text{Quantity of Product} \\ &= (₹32.60 - ₹19.60) x_1 + (₹34.80 - ₹20.80) x_2 + (₹36.00 - ₹28) x_3 \\ &= 13x_1 + 14 x_2 + 8 x_3 \end{aligned}$$

Subject to Constraints:

$$1/20 x_1 + 1/20 x_2 + 1/5 x_3 \leq 100$$

$$\text{Or } x_1 + x_2 + 4 x_3 \leq 2,000$$

$$1/10 x_1 + 1/20 x_2 + 1/20 x_3 \leq 180$$

$$\text{Or } 2x_1 + x_2 + x_3 \leq 3,600$$

$$1/20 x_1 + 1/10 x_2 + 1/10 x_3 \leq 120$$

$$\text{Or } x_1 + 2x_2 + 2x_3 \leq 2,400$$

$$x_1 \leq 30$$

$$\text{and } x_1, x_2, x_3 \geq 0$$

10. The given information can be tabulated in following transportation problem-

Manager	Assignment			Time Available (Hours)
	TA (₹)	TPA (₹)	GCR (₹)	
C ₁	1,800	2,250	2,850	176
C ₂	2,100	1,950	1,800	176
C ₃	2,400	2,100	2,250	176
Time Required (Hours)	143	154	176	

The given problem is an unbalanced transportation problem. Introducing a dummy assignment to balance it, we get-

Manager	Assignment				Time Available (Hours)
	TA (₹)	TPA (₹)	GCR (₹)	Dummy (₹)	
C ₁	1,800	2,250	2,850	0	176
C ₂	2,100	1,950	1,800	0	176
C ₃	2,400	2,100	2,250	0	176
Time Required (Hours)	143	154	176	55	528

The objective here is to maximize total billing amount of the auditors. For achieving this objective, let us convert this maximization problem into a minimization problem by subtracting all the elements of the above payoff matrix from the highest payoff i.e. ₹2,850.

Manager	Assignment				Time Available (Hours)
	TA (₹)	TPA (₹)	GCR (₹)	Dummy (₹)	
C ₁	1,050	600	0	2,850	176
C ₂	750	900	1,050	2,850	176
C ₃	450	750	600	2,850	176
Time Required (Hours)	143	154	176	55	528

Now, let us apply VAM method to the above matrix for finding the initial feasible solution.

Manager	Assignment				Time Avail. (Hours)	Difference		
	TA (₹)	TPA (₹)	GCR (₹)	Dummy (₹)				
C ₁	1,050	600	0	176	2,850	176/0	600 - -	
C ₂	750	900	121	1,050	2,850	55	176/55/0	150, 150 1,950
C ₃	450	143	750	33	600	2,850	176/33/0	150, 300, 2,100
Time Required	143/0	154/121/0	176/0	55/0		528		
Difference	300	150	600	0				
	300	150	--	0				
	-	150	-	0				

The initial solution is given below. It can be seen that it is a degenerate solution since the number of allocation is 5. In order to apply optimality test, the total number of allocations should be 6 (m + n - 1). To make the initial solution a non-degenerate, we introduce a very small quantity in the least cost independent cell which is cell of C₃, GCR.

Manager	Assignment						
	TA (₹)	TPA (₹)	GCR (₹)	Dummy (₹)			
C ₁	1,050	600	0	176	2,850		
C ₂	750	900	121	1,050	2,850	55	
C ₃	450	143	750	33	600	e	2,850

Let us test the above solution for optimality-

(u_i + v_j) Matrix for Allocated / Unallocated Cells

				U _i
-150	150	0	2,100	-600
600	900	750	2,850	150

	450	750	600	2,700	0
v_j	450	750	600	2,700	

Now we calculate $\Delta_{ij} = C_{ij} - (u_i + v_j)$ for non basic cells which are given in the table below-

Δ_{ij} Matrix

1,200	450		750
150		300	
			150

Since, all allocations in $\Delta_{ij} = C_{ij} - (u_i + v_j)$ are non negative, the allocation is optimal. The allocation of assignments to managers and their billing amount is given below:

Manager	Assignment	Billing Amount
C ₁	Global Compliance & Reporting (GCR)	₹5,01,600 (176 hrs. × ₹2,850)
C ₂	Tax Performance Advisory (TPA)	₹2,35,950 (121 hrs. × ₹1,950)
C ₃	Tax Accounting (TA)	₹3,43,200 (143 hrs. × ₹2,400)
C ₃	Tax Performance Advisory (TPA)	₹69,300 (33 hrs. × ₹2,100)
Total Billing		₹11,50,050

11. (i) Invalid

Reason: As per the rules of network construction, parallel activities between two events, without intervening events, are prohibited. Dummy activities are needed when two or more activities have same initial and terminal events. Dummy activities do not consume time or resources.

(ii) Valid

Reason: As per the conventions adopted in drawing networks, the head event or terminal node always has a number higher than that of initial node or tail event.

(iii) Invalid

Reason: The difference between the latest event time and the earliest event time is termed as slack of an event. Free float is determined by subtracting head event slack from the total float of an activity.

(iv) Invalid

Reason: For every critical activity in a network, the earliest start time and the latest start time is same and also the earliest finish time and the latest finish time is same.

(v) Invalid

Reason: The optimum duration is the time period in which the total cost of the project is minimum.

(vi) Valid

Reason: Resource leveling is a network technique used for reducing the requirement of a particular resource due to its paucity or insufficiency within a constraint on the project duration. The process of resource leveling utilize the large floats available on non-critical activities of the project and cuts down the demand of the resource.

12. Allocation of Random Numbers

Raw Material			Wages & Other Variable Overheads			Sales		
Mid Point	Cum. Prob.	Random Nos.	Mid Point	Cum. Prob.	Random Nos.	Mid Point	Cum. Prob.	Random Nos.
9	0.2	0 – 1	12	0.3	0 – 2	36	0.1	0
11	0.5	2 – 4	14	0.8	3 – 7	40	0.4	1 – 3
13	0.8	5 – 7	16	1.0	8 – 9	44	0.8	4 – 7
15	1.0	8 – 9				48	1.0	8 – 9

Simulation Table

(₹ in 000)

Month	Raw Material	Wages & Other V.O	Sales	Fixed Cost	Net Cash Flow	Cash Balancing (Opening ₹40 thousand)
1	11	12	36	15	-2	38
2	11	14	44	15	+ 4	42
3	9	16	44	15	+4	46
4	9	12	36	15	0	46
5	11	16	40	15	-2	44
6	13	16	48	15	+4	48

13. (i) Variable cost per unit that will be effected by learning and experience curve is ₹2,200 (₹4,400 – 50% of ₹ 4,400).

Let, 'r' be the learning curve rate.

No. of Batch (x)	Cumulative Average Cost per unit (y)
1	2,200
2	2,200 r
4	2,200 r ²

$$\text{If } 2,200 r^2 = ₹1,920 \text{ (₹4,120 – 50\% of ₹ 4,400)}$$

$$r^2 = 0.8727$$

$$r = 0.934$$

$$\text{Therefore, Learning Curve Effect} = 93\% \text{ (rounded off)}$$

(ii) Calculation of Optimum Price

Price per unit (₹)	Demand (units)	Variable Cost per unit * [W.N.] (₹)	Variable Cost per unit** (₹)	Total Variable Cost per unit (₹)	Contribution per unit (₹)	Total Contribution (₹)
11,100.00	1,000	2,200.00	2,200.00	4,400.00	6,700.00	67,00,000
10,700.00	2,000	2,046.00	2,200.00	4,246.00	6,454.00	1,29,08,000
9,600.00	3,000	1,960.86	2,200.00	4,160.86	5,439.14	1,63,17,420
8,700.00	4,000	1,902.78	2,200.00	4,102.78	4,597.22	1,83,88,880

(*) This represents variable cost part which is affected by the learning and experience curve effect.

(**) This represents variable cost part which is not affected by the learning and experience curve effect.

Working Note [W.N.]

Variable Cost per unit

Output in Batches (x)	Average Cost of the First Unit (a)	$x^{-0.1047}$	Cumulative Average Cost per unit (y)
1	2,200	1.0000	2,200.00
2	2,200	0.9299	2,046.00
3	2,200	0.8913	1,960.86
4	2,200	0.8649	1,902.78

$$y = ax^b$$

Where,

$$\begin{aligned}
 y &= \text{Cumulative average unit costs} \\
 a &= \text{Average cost of the first unit} \\
 x &= \text{Cumulative number of batches} \\
 b &= \text{Log of learning ratio} \div \text{Log of 2} \\
 &= \log 0.93 \div \log 2 \\
 &= -0.0315 \div 0.3010 \\
 &= -0.1047
 \end{aligned}$$

14. (i) 'Learning Curve Theory' will not be applicable as *alloy combination of the input metal is quite different* among the suppliers hence learning experience with one type of metal may not be beneficial for the workers to deal with other metal with separate alloy composition.
- (ii) 'Learning Curve Theory' will not be applicable as in this situation *rotation of labour is done frequently*, labours will not be able to get the benefit of learning and apply their learning. Hence, learning curve theory can not be applied.
- (iii) 'Learning Curve Theory' will not be applicable as in this situation as *workers are skilled and employed for a long time*, they have already achieved maximum level of expertise by taking advantage of learning. Hence, at this point of time learning curve theory can not be applied.
- (iv) 'Learning Curve Theory' will not be applicable as indirect materials are the materials which are not used directly in the production (not directly proportionate with volume of output) and usually used machines (e.g. lubricants, spares parts etc.) with less human interactions. Adverse usage of indirect materials can be controlled through proper monitoring and appropriate standard settings and not from applying learning curve theory.

15. **Statement Showing Target Cost "Z"**

₹ / Toy	
Target Selling Price	100.00
Less: Royalty @15%	15.00
Less: Profit @ 25%	25.00
Target Cost	60.00

Statement Showing Cost Structure "Z"

₹ / Toy	
Component A	8.50
Component B	7.00

Labour (0.40 hr. × ₹ 60 per hr.)	24.00
Product Specific Overheads	13.50
Other Material (0.6 kg / 96% × ₹ 16)	10.00
Total Cost of Manufacturing	63.00

Total Cost of Manufacturing is ₹ 63 while Target Cost is ₹ 60. Company "T" should make efforts to **reduce its manufacturing cost by ₹ 3** to achieve Target Selling Price of ₹ 100.

16. **Cost Incurred – Cost Classification**

S. No.	Cost Incurred	Classification 1	Classification 2	Classification 3
(i)	Remuneration of the loan division manager.	Uncontrollable by the loan division manager.	Direct cost of the loan division.	Out of Pocket Cost
(ii)	Cost of Printer Paper, File Folders, View Binders, Ink, Toner & Ribbons used in the loan division.	Controllable by the loan division manager.	Direct cost of the loan division.	Out of Pocket Cost
(iii)	Cost of the division's MacBook Pro purchased by the loan division manager last year.	Controllable by the loan division manager.	Direct cost of the loan division.	Sunk Cost
(iv)	Cost of advertising in business newspaper by the bank, which is allocated to the loan division.	Uncontrollable by the loan division manager.	Indirect Cost of the loan division.	Out of Pocket Cost

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

QUESTIONS

Multiple Choice Questions

1. “Enterprise Governance” can be defined as the set of responsibilities and practices exercised _____ with the goal of providing strategic direction to ensure that objectives are achieved and risks are managed appropriately.
 - (a) only by the board
 - (b) only by the executive management
 - (c) by both board and executive management
 - (d) by board, executive management, and end-user
2. In DBMS, the database implementation is done at the three levels- Physical, Logical and External. Which of the statement is true about these levels?
 - (a) Physical Level involves the implementation of the database on the hard disk.
 - (b) Physical Level defines the schema which is divided into smaller units known as sub-schemas.
 - (c) Logical Level defines the schema which is divided into smaller units known as sub-schemas.
 - (d) External Level deals with the nature of data stored and the scheme of the data.
3. A hacker Mr. C, duplicates the login procedure of an employee of an organization ABC Ltd.; captures the user's password and attempts for the system's crash. Name the type of the attack.
 - (a) Subversive Threat
 - (b) Wire Tapping
 - (c) Sabotage
 - (d) Spoofing
4. Mr. Rahul is a security administrator in a bank which executes many real-time processes like ATM processing. If fast recovery is critical for its business processes, which type of backup option should he refer to the management of the company?
 - (a) Cold Site
 - (b) Hot Site

- (c) Warm Site
 - (d) Reciprocal Agreement
5. An Analyst while conducting the Technical Feasibility under System Development Life Cycle (SDLC) would not consider that _____?
- (a) Does the proposed equipment have the technical capacity to hold the data required to use the new system?
 - (b) Can the system be expanded if developed?
 - (c) Is the procurement of the hardware and software for the class of applications being considered, cost effective?
 - (d) Will the proposed system provide adequate responses to inquiries, regardless of the number or location of users?
6. Which of the following represents the correct sequence of the steps involved in Information System (IS) Audit? (1) Planning, (2) Fieldwork, (3) Scoping, (4) Reporting, (5) Analysis and (6) Close.
- (a) (3) – (1) – (2) – (5) – (4) – (6)
 - (b) (3) – (1) – (6) – (2) – (4) – (5)
 - (c) (3) – (2) – (4) – (5) – (1) – (6)
 - (d) (1) – (2) – (3) – (4) – (5) – (6)
7. Mr. A is an employee of XYZ company. He sends an email through his laptop to the client and pretends to be the Managing Director of the company. He informs the client to pay future payments in the employee Mr. A's account. Under which section will A be punished?
- (a) Section 66A
 - (b) Section 66B
 - (c) Section 66C
 - (d) Section 66D
8. Among the emerging technologies, the ones which are environmentally sustainable are the ones which will survive the test of time. Such technologies are being designated by a key term called as _____.
- (a) Cloud Computing
 - (b) Green Computing

- (c) Mobile Computing
- (d) Hybrid Computing

Concepts of Governance and Management of Information Systems

9. When risks are identified and analysed; it is not always appropriate to implement controls to counter them. Identify the possible Risk Management Strategies.
10. How can we say that COBIT 5 can be customized as per enterprise's specific requirement?

Information System Concepts

11. As an IT Expert, explain the importance of Information Systems from Strategic and Operational Perspective.
12. How Management Level Systems (MLS) differ from Strategic Level Systems (SLS)?

Protection of Information Systems

13. Discuss classification of Controls based on "Nature of Information Systems Resources".
14. Operating System is the computer control program that allows users and their applications to share and access common computer resources, such as processor, main memory, database and printers. Thus, protecting an Operating System access is crucial and should be dealt with utmost importance. Analyse the Operating Systems Access Controls that can be placed to safeguard Operating Systems.

Business Continuity Planning and Disaster Recovery Planning

15. List out the Objectives and Goals of Business Continuity Planning (BCP).
16. Determine the components of Business Continuity Management (BCM) Process.

Acquisition, Development and Implementation of Information Systems

17. As an Accountant, discuss the ways in which you can assist in various aspects during System development?
18. "A System Development Methodology is a formalized, standardized, well-organized and documented set of activities used to manage a system development project." Prepare a list of the common characteristics that all these system methodologies will have.

Auditing of Information Systems

19. "Existence of an Audit Trail is a key financial audit requirement since without an audit trail, the auditor may have extreme difficulty in gathering sufficient, appropriate audit evidence to validate the figures in the client's accounts." Determine the issues through which the performance of evidence collection and reliability of controls can be understood?

20. As an Information Systems (IS) Auditor, you should acquire a good understanding of the technology environment and related control issues. List out the key aspects that you would majorly emphasize upon.

Information Technology Regulatory Issues

21. Which section of IT Act, 2000 relates to "Delivery of Services by Service Provider". Discuss.
22. Discuss the guidelines recommended by Securities and Exchange Board of India (SEBI) to conduct audit of systems.

Emerging Technologies

23. What do you understand by the term "Community Cloud"? Discuss its characteristics.
24. Discuss the steps that can be incorporated in the work habits of computer users and businesses to minimize adverse impact on the global environment towards Green IT.

Questions based on Case Study

25. PQR is an Indian- based enterprise engaged in event management worldwide having offices at various locations in India and abroad. Most of the company's operations are performed online. However, the existing infrastructure system is facing several operational and security problems with growing volume of business. It realizes the existing information system must be upgraded for better delivery of services for improved customer satisfaction and to remain competitive in global market. To upgrade their existing system, the top management of the Company has appointed a high-level IT Steering Committee comprising IS Auditor as one of the members. The company also intends to develop a document for Disaster Recovery Procedure Plan after upgrading information infrastructure.

Read the above and answer the following:

- (a) Describe the key functions of IT Steering Committee for overall development/upgradation?
- (b) Enterprise needs to take various steps to ensure that they comply with the Cyber Laws of India. List out the steps that they must take to ensure the compliance.
- (c) "System Maintenance" is a crucial aspect of Systems Development Life Cycle. Once the new Information Systems are implemented, most of them require at least some modification after development. The need for modification arises from a failure to anticipate/capture all the requirements during system analysis/design and/or from changing organizational requirements. Discuss various categories of System Maintenance.

SUGGESTED ANSWERS/HINTS

1. (c) by both board and executive management
2. (a) Physical Level involves the implementation of the database on the hard disk.
3. (d) Spoofing
4. (b) Hot Site
5. (c) Is the procurement of the hardware and software for the class of applications being considered, cost effective?
6. (a) (3) – (1) – (2) – (5) – (4) – (6)
7. (d) Section 66D
8. (b) Green Computing
9. When risks are identified and analyzed; it is not always appropriate to implement controls to counter them. Some risks may be minor, and it may not be cost effective to implement expensive control processes for them. Risk management strategies are explained below:
 - **Tolerate/Accept the risk.** One of the primary functions of management is managing risk. Some risks may be considered minor because their impact and probability of occurrence is low. In this case, consciously accepting the risk as a cost of doing business is appropriate, as well as periodically reviewing the risk to ensure its impact remains low.
 - **Terminate/Eliminate the risk.** It is possible for a risk to be associated with the use of a particular technology, supplier, or vendor. The risk can be eliminated by replacing the technology with more robust products and by seeking more capable suppliers and vendors.
 - **Transfer/Share the risk.** Risk mitigation approaches can be shared with trading partners and suppliers. A good example is outsourcing infrastructure management. In such a case, the supplier mitigates the risks associated with managing the IT infrastructure by being more capable and having access to more highly skilled staff than the primary organization. Risk also may be mitigated by transferring the cost of realized risk to an insurance provider.
 - **Treat/mitigate the risk.** Where other options have been eliminated, suitable controls must be devised and implemented to prevent the risk from manifesting itself or to minimize its effects.
 - **Turn back.** Where the probability or impact of the risk is very low, then management may decide to ignore the risk.

10. COBIT 5 can be tailored to meet an enterprise's specific business model, technology environment, industry, location and corporate culture. Because of its open design, it can be applied to meet needs related to:

- Information security,
- Risk management,
- Governance and management of enterprise IT,
- Assurance activities,
- Legislative and regulatory compliance, and
- Financial processing or Corporate Social Responsibility (CSR) reporting.

Enterprises can select required guidance and best practices from specific publications and processes of COBIT 5. Further, the above examples show specific areas based on which best practices can be extracted from COBIT 5.

11. Relative Importance of Information Systems from Strategic/Operational Perspectives are as follows:

- An Information System can help in decision making, produce high quality of products and perform logistical functions, assist in determining scenarios such as unifications and achievements, and streamline the strategic planning process that can help top management to take corporate decision easily.
- In operations management, information systems design can apply to production control, research, development, and manufacturing to produce desired results of the products in terms of quality and cost. Information systems applications in the field of human resources management can help in retaining highly qualified employees by having important data concerning employees obtained after several processes used by human resource managers or personnel.
- Information systems also support logistical processes in various ways, such as real time inquiries to track an item from the point of shipment, receiving and storage of the item and inventory status of the item. Not only this, information systems can also provide the structure for programmers, database managers and data administrators to collaborate on new and existing projects.
- Information system is used in every aspect of business right from customer relationship management, marketing strategies, retailing, communication, product promotion, product development, forecast future sales to supply chain management etc. ERP, Data Mining tools, Data warehouse, Business intelligence, MIS, Internet, Intranet, Extranet etc. are the information systems and information technologies that support managers in every step of business.

- Information Systems have accelerated the pace of processing of enterprise information using IT and integrating all aspects of the operations of the business e.g. instead of gathering data manually and taking out hidden information from it by conducting meeting of executives, which is crucial in decision making for marketing strategies, customer relationship management etc., the same can be obtained by using the respective data mining tools and data warehouse.
- Information System also provides new platform to business world where space and time is no more obstacle. For example, selling and purchasing of products can be done on web any time and from anywhere.
- There are different kinds of systems depending upon the different interest, specialties and levels in an organization. The organization comprise of strategic, management, knowledge and operational levels, which is further divided into functional areas e.g. sales, marketing, manufacturing, finance, accounting and human resources. For example - the sales area uses operational level system to keep track of daily sales figures, a knowledge level systems designs the promotional displays of the organization, a management level system generates report of the monthly sales by territory and a strategic level system predicts the sale of the product in coming five years.

- 12. Management-Level Systems (MLS)** support the middle managers in monitoring, decision-making and administrative activities and are helpful in answering questions like - Are things working well and in order? These provide periodic reports rather than instant information on operations. For example – A college control system gives report on the number of leaves availed by the staff, salary paid to the staff, funds generated by the fees, finance planning etc. These types of systems mainly answer “what if” questions. For example - What would be quality of teaching if college must achieve top ranking in academics? These types of questions can be answered only after getting new data from outside the organization, as well as data from inside which cannot be easily obtained from existing operational level systems.

MLS supports managers in effective decision making by providing relevant and required information at the right time to the right people. Management Information System and Decision Support Systems are two major types of Management Level systems.

- **Management Information Systems (MIS)** enables management at different levels in decision making and problem solving. They use results produced by the TPS, but they may also use other information.
- **Decision Support System (DSS)** is a type of computerized information system that supports business and organizational decision-making activities. A properly-designed DSS is an interactive software-based system intended to help decision makers to compile useful information from raw data, documents, personal knowledge, and/or business models to identify and solve problems and make decisions.

Strategic Level Systems are for strategic managers to track and deal with strategic issues, assisting long-range planning. These systems support the senior level management to tackle and address strategic issues and long term trends, both inside organization and the outside world. These answer questions like what products should be launched to increase the profit and capture the market. It helps in long term planning. A principle area is tracking changes in the external conditions (market sector, employment levels, share prices, etc.) and matching these with the internal conditions of the organization. Executive Information Systems (EIS) serves the strategic level i.e. top level managers of the organization. ESS creates a generalized computing and communications environment rather than providing any pre-set applications or specific competence.

13. Classification of Controls based on “Nature of Information System Resources” is as follows:

- **Environmental Controls** are the controls relating to IT environment such as power, air-conditioning, Un-interrupted Power Supply (UPS), smoke detection, fire-extinguishers, dehumidifiers etc. These controls deal with the external factors in the Information System and preventive measures to overcome environmental exposures which are primarily due to elements of nature. Such common occurrences are Fire, Natural disasters-earthquake, volcano, hurricane, tornado, Power spike, Air conditioning failure, Electrical shock, Equipment failure, Water damage/flooding-even with facilities located on upper floors of high buildings. Water damage is a risk, usually from broken water pipes, and Bomb threat/attack. However, with proper controls, exposures can be reduced.
- **Physical Access Controls** are the controls relating to physical security of the tangible Information System resources and intangible resources stored on tangible media etc. Such controls include Access control doors, Security guards, door alarms, restricted entry to secure areas, visitor logged access, CCTV monitoring etc. These controls are personnel; hardware and software related and include procedures exercised on access to IT resources by employees/outsideers. These controls relate to establishing appropriate physical security and access control measures for IT facilities, including off-site use of information devices in conformance with the general security policy. These Physical security and access controls should address supporting services (such as electric power), backup media and any other elements required for the system’s operation. Access should be restricted to authorized individuals where resources are located in public areas, they should be appropriately protected to prevent or deter loss or damage from theft or vandalism. Further, IT management should ensure zero visibility.
- **Logical Access Controls:** These are the controls relating to logical access to **information** resources such as operating systems controls, application software boundary controls, networking controls, access to database objects, encryption controls etc. Logical access controls are implemented to ensure that access to

systems, data and programs is restricted to authorized users to safeguard information against unauthorized use, disclosure or modification, damage or loss. The key factors considered in designing logical access controls include confidentiality and privacy requirements, authorization, authentication and incident handling, reporting and follow-up, virus prevention and detection, firewalls, centralized security administration, user training and tools for monitoring compliance, intrusion testing and reporting.

14. The Operating System Access Controls are as follows:

- **Automated terminal identification:** This will help to ensure that a particular session could only be initiated from a particular location or computer terminal.
- **Terminal log-in procedures:** A log-in procedure is the first line of defense against unauthorized access. The log-in procedure does not provide unnecessary help or information, which could be misused by an intruder. When the user initiates the log-on process by entering user-id and password, the system compares the ID and password to a database of valid users. If the system finds a match, then log-on attempt is authorized. If password or user-id is entered incorrectly, then after a specified number of wrong attempts, the system should lock the user from the system.
- **Access Token:** If the log on attempt is successful, the Operating System creates an access token that contains key information about the user including user-id, password, user group and privileges granted to the user. The information in the access token is used to approve all actions attempted by the user during the session.
- **Access Control List:** This list contains information that defines the access privileges for all valid users of the resource. When a user attempts to access a resource, the system compares his or her user-id and privileges contained in the access token with those contained in the access control list. If there is a match, the user is granted access.
- **Discretionary Access Control:** The system administrator usually determines; who is granted access to specific resources and maintains the access control list. However, in distributed systems, resources may be controlled by the end-user. Resource owners in this setting may be granted discretionary access control, which allows them to grant access privileges to other users. For example, the controller who is owner of the general ledger grants read only privilege to the budgeting department while accounts payable manager is granted both read and write permission to the ledger.
- **User identification and authentication:** The users must be identified and authenticated in a foolproof manner. Depending on risk assessment, more stringent methods like Biometric Authentication or Cryptographic means like Digital Certificates should be employed.

- **Password management system:** An operating system could enforce selection of good passwords. Internal storage of password should use one-way hashing algorithms and the password file should not be accessible to users.
 - **Use of system utilities:** System utilities are the programs that help to manage critical functions of the operating system e.g. addition or deletion of users. Obviously, this utility should not be accessible to a general user. Use and access to these utilities should be strictly controlled and logged.
 - **Duress alarm to safeguard users:** If users are forced to execute some instruction under threat, the system should provide a means to alert the authorities.
 - **Terminal time out:** Log out the user if the terminal is inactive for a defined period. This will prevent misuse in absence of the legitimate user.
 - **Limitation of connection time:** Define the available time slot. Do not allow any transaction beyond this time. For example, no computer access after 8.00 p.m. and before 8.00 a.m. - or on a Saturday or Sunday.
15. The primary objective of a Business Continuity Plan (BCP) is to minimize loss by minimizing the cost associated with disruptions and enable an organization to survive a disaster and to re-establish normal business operations. To survive, the organization must assure that critical operations can resume normal processing within a reasonable time frame. The key objectives of the contingency plan should be to:
- Provide the safety and well-being of people on the premises at the time of disaster;
 - Continue critical business operations;
 - Minimize the duration of a serious disruption to operations and resources (both information processing and other resources);
 - Minimize immediate damage and losses;
 - Establish management succession and emergency powers;
 - Facilitate effective co-ordination of recovery tasks;
 - Reduce the complexity of the recovery effort; and
 - Identify critical lines of business and supporting functions.
- Therefore, the goals of the Business Continuity Plan should be to:
- Identify weaknesses and implement a disaster prevention program;
 - minimize the duration of a serious disruption to business operations;
 - facilitate effective co-ordination of recovery tasks; and
 - reduce the complexity of the recovery effort.

16. The components of the Business Continuity Management (BCM) process are as follows:
- **BCM – Process:** The management process enables the business continuity, capacity and capability to be established and maintained. The capacity and capability are established in accordance to the requirements of the enterprise.
 - **BCM – Information Collection Process:** The activities of assessment process do the prioritization of an enterprise's products and services and the urgency of the activities that are required to deliver them. This sets the requirements that will determine the selection of appropriate BCM strategies in the next process.
 - **BCM – Strategy Process:** Finalization of business continuity strategy requires assessment of a range of strategies. This requires an appropriate response to be selected at an acceptable level and during and after a disruption within an acceptable timeframe for each product or service, so that the enterprise continues to provide those products and services. The selection of strategy will take into account the processes and technology already present within the enterprise.
 - **BCM – Development and Implementation Process:** Development of a management framework and a structure of incident management, business continuity and business recovery and restoration plans.
 - **BCM – Testing and Maintenance Process:** BCM testing, maintenance and audit testify the enterprise BCM to prove the extent to which its strategies and plans are complete, current and accurate; and Identifies opportunities for improvement.
 - **BCM – Training Process:** Extensive trainings in BCM framework, incident management, business continuity and business recovery and restoration plans enable it to become part of the enterprise's core values and provide confidence in all stakeholders in the ability of the enterprise to cope with minimum disruptions and loss of service.
17. An accountant can help in various related aspects during system development; some of them are as follows:
- (i) **Return on Investment (referred as ROI):** This defines the return, an entity shall earn on a particular investment i.e. capital expenditure. This financial data is a prime consideration for any capital expenditure entity decides to incur. The important data required for this analysis being the cost of project, the expected revenue/benefit for a given period. The analysis ideally needs to be done before the start of the development efforts for better decision making by management. For this, cost analysis is done that includes estimates for typical like Development Costs, Operating Costs and Intangible Costs.
 - (ii) **Computing Cost of IT Implementation and Cost Benefit Analysis:** For analysis of ROI, accountants need the costs and returns from the system development efforts.

For correct generation of data, proper accounting needs to be done. Accountants shall be the person to whom management shall look for the purpose.

(iii) **Skills expected from an Accountant:** An accountant, being an expert in accounting field must possess skills to understand the system development efforts and nuances of the same. S/he is expected to have various key skills, including understanding of the business objectives, expert book keeper, and understanding of system development efforts etc.

18. A System Development Methodology is a formalized, standardized, well-organized and documented set of activities used to manage a system development project. It refers to the framework that is used to structure, plan and control the process of developing an information system. Each of the available methodologies is best suited to specific kinds of projects, based on various technical, organizational, project and team considerations. The methodology is characterized by the following:

- The project is divided into several identifiable processes, and each process has a starting point and an ending point. Each process comprises several activities, one or more deliverables, and several management control points. The division of the project into these small, manageable steps facilitates both project planning and project control.
- Specific reports and other documentation, called Deliverables must be produced periodically during system development to make development personnel accountable for faithful execution of system development tasks.
- Users, managers, and auditors are required to participate in the project, which generally provide approvals, often called signoffs, at pre-established management control points. Signoffs signify approval of the development process and the system being developed.
- The system must be tested thoroughly prior to implementation to ensure that it meets users' needs as well as requisite functionalities.
- A training plan is developed for those who will operate and use the new system.
- Formal program change controls are established to preclude unauthorized changes to computer programs.
- A post-implementation review of all developed systems must be performed to assess the effectiveness and efficiency of the new system and of the development process.

19. The performance of evidence collection and understanding the reliability of controls involves issues like-

- **Data retention and storage:** A client's storage capabilities may restrict the amount of historical data that can be retained "on-line" and readily accessible to the auditor. If the client has insufficient data retention capacities, the auditor may not be able to

review a whole reporting period transactions on the computer system. For example, the client's computer system may save data on detachable storage device by summarising transactions into monthly, weekly or period end balances.

- **Absence of input documents:** Transaction data may be entered into the computer directly without the presence of supporting documentation e.g. input of telephone orders into a telesales system. The increasing use of Electronic Data Interchange (EDI) will result in less paperwork being available for audit examination.
 - **Non-availability of audit trail:** The audit trails in some computer systems may exist for only a short period. The absence of an audit trail will make the auditor's job very difficult and may call for an audit approach which involves auditing around the computer system by seeking other sources of evidence to provide assurance that the computer input has been correctly processed and output.
 - **Lack of availability of printed output:** The results of transaction processing may not produce a hard copy form of output, i.e. a printed record. In the absence of physical output, it may be necessary for an auditor to directly access the electronic data retained on the client's computer. This is normally achieved by having the client provide a computer terminal and being granted "read" access to the required data files.
 - **Audit evidence:** Certain transactions may be generated automatically by the computer system. For example, a fixed asset system may automatically calculate depreciation on assets at the end of each calendar month. The depreciation charge may be automatically transferred (journalised) from the fixed assets register to the depreciation account and hence to the client's income and expenditure account.
 - **Legal issues:** The use of computers to carry out trading activities is also increasing. More organisations in both the public and private sector intend to make use of EDI and electronic trading over the Internet. This can create problems with contracts, e.g. when is the contract made, where is it made (legal jurisdiction), what are the terms of the contract and are the parties to the contract.
20. As an Information Systems (IS) Auditor, an important task for the auditor as a part of his/her preliminary evaluation is to gain a good understanding of the technology environment and related control issues. This could include consideration of the following:
- Analysis of business processes and level of automation,
 - Assessing the extent of dependence of the enterprise on Information Technology to carry on its businesses i.e. Role of IT in the success and survival of business,
 - Understanding technology architecture which could be quite diverse such as a distributed architecture or a centralized architecture or a hybrid architecture,
 - Studying network diagrams to understand physical and logical network connectivity,

- Understanding extended enterprise architecture wherein the organization systems connect seamlessly with other stakeholders such as vendors (SCM), customers (CRM), employees (ERM) and the government,
 - Knowledge of various technologies and their advantages and limitations is a critical competence requirement for the auditor. For example, authentication risks relating to e-mail systems,
 - And finally, Studying Information Technology policies, standards, guidelines and procedures.
21. Section 6A of IT Act, 2000 deals with “Delivery of Services by Service Provider”.

[Section 6A] Delivery of Services by Service Provider

- (1) The appropriate Government may, for the purposes of this Chapter and for efficient delivery of services to the public through electronic means authorize, by order, any service provider to setup, maintain and upgrade the computerized facilities and perform such other services as it may specify by notification in the Official Gazette.

Explanation –

For the purposes of this section, service provider so authorized includes any individual, private agency, private company, partnership firm, sole proprietor firm or any such other body or agency which has been granted permission by the appropriate Government to offer services through electronic means in accordance with the policy governing such service sector.

- (2) The appropriate Government may also authorize any service provider authorized under sub-section (1) to collect, retain and appropriate such service charges, as may be prescribed by the appropriate Government for the purpose of providing such services, from the person availing such service.
- (3) Subject to the provisions of sub-section (2), the appropriate Government may authorize the service providers to collect, retain and appropriate service charges under this section notwithstanding the fact that there is no express provision under the Act, rule, regulation or notification under which the service is provided to collect, retain and appropriate e-service charges by the service providers.
- (4) The appropriate Government shall, by notification in the Official Gazette, specify the scale of service charges which may be charged and collected by the service providers under this section:

PROVIDED that the appropriate Government may specify different scale of service charges for different types of services.

22. The guidelines recommended by Securities and Exchange Board of India (SEBI) to conduct audit of systems are as follows:

- The Audit shall be conducted according to the Norms, Terms of References (TOR) and Guidelines issued by SEBI.
- Stock Exchange/Depository (Auditee) may negotiate and the board of the Stock Exchange / Depository shall appoint the Auditors based on the prescribed Auditor Selection Norms and TOR. The Auditors can perform a maximum of 3 successive audits. The proposal from Auditor must be submitted to SEBI for records.
- Audit schedule shall be submitted to SEBI at-least 2 months in advance, along with scope of current audit & previous audit.
- The scope of the Audit may be extended by SEBI, considering the changes which have taken place during last year or post previous audit report
- Audit has to be conducted and the Audit report be submitted to the Auditee. The report should have specific compliance/non-compliance issues, observations for minor deviations as well as qualitative comments for scope for improvement. The report should also take previous audit reports in consideration and cover any open items therein.
- The Auditee management provides their comment about the Non-Conformities (NCs) and observations. For each NC, specific time-bound (within 3 months) corrective action must be taken and reported to SEBI. The auditor should indicate if a follow-on audit is required to review the status of NCs. The report along with Management Comments shall be submitted to SEBI within 1 month of completion of the audit.

23. **Community Cloud:** The Community Cloud is the cloud infrastructure that is provisioned for exclusive use by a specific community of consumers from organizations that have shared concerns (eg. mission security requirements, policy, and compliance considerations). It may be owned, managed, and operated by one or more of the organizations in the community, a third party or some combination of them, and it may exist on or off premises. In this, a private cloud is shared between several organizations. This model is suitable for organizations that cannot afford a private cloud and cannot rely on the public cloud either.

Characteristics of Community Clouds are as follows:

- **Collaborative and Distributive Maintenance:** In this, no single company has full control over the whole cloud. This is usually distributive and hence better cooperation provides better results.
- **Partially Secure:** This refers to the property of the community cloud where few organizations share the cloud, so there is a possibility that the data can be leaked from one organization to another, though it is safe from the external world.

- **Cost Effective:** As the complete cloud is being shared by several organizations or community, not only the responsibility gets shared; the community cloud becomes cost effective too.

24. Some of the steps for Green IT include the following:

Develop a sustainable Green Computing plan

- Involve stakeholders to include checklists, recycling policies, recommendations for disposal of used equipment, government guidelines and recommendations for purchasing green computer equipment in organizational policies and plans;
- Encourage the IT community for using the best practices and encourage them to consider green computing practices and guidelines.
- On-going communication about and campus commitment to green IT best practices to produce notable results.
- Include power usage, reduction of paper consumption, as well as recommendations for new equipment and recycling old machines in organizational policies and plans; and
- Use cloud computing so that multiple organizations share the same computing resources thus increasing the utilization by making more efficient use of hardware resources.

Recycle

- Dispose e-waste according to central, state and local regulations;
- Discard used or unwanted electronic equipment in a convenient and environmentally responsible manner as computers emit harmful emissions;
- Manufacturers must offer safe end-of-life management and recycling options when products become unusable; and
- Recycle computers through manufacturer's recycling services.

Make environmentally sound purchase decisions

- Purchase of desktop computers, notebooks and monitors based on environmental attributes;
- Provide a clear, consistent set of performance criteria for the design of products;
- Recognize manufacturer efforts to reduce the environmental impact of products by reducing or eliminating environmentally sensitive materials, designing for longevity and reducing packaging materials; and
- Use Server and storage virtualization that can help to improve resource utilization, reduce energy costs and simplify maintenance.

Reduce Paper Consumption

- Reduce paper consumption by use of e-mail and electronic archiving;
- Use of “track changes” feature in electronic documents, rather than redline corrections on paper;
- Use online marketing rather than paper based marketing; e-mail marketing solutions that are greener, more affordable, flexible and interactive than direct mail; free and low-cost online invoicing solutions that help cut down on paper waste; and
- While printing documents; make sure to use both sides of the paper, recycle regularly, use smaller fonts and margins, and selectively print required pages.

Conserve Energy

- Use Liquid Crystal Display (LCD) monitors rather than Cathode Ray Tube (CRT) monitors;
 - Develop a thin-client strategy wherein thin clients are smaller, cheaper, simpler for manufacturers to build than traditional PCs or notebooks and most importantly use about half the power of a traditional desktop PC;
 - Use notebook computers rather than desktop computers whenever possible;
 - Use the power-management features to turn off hard drives and displays after several minutes of inactivity;
 - Power-down the CPU and all peripherals during extended periods of inactivity;
 - Try to do computer-related tasks during contiguous, intensive blocks of time, leaving hardware off at other times;
 - Power-up and power-down energy-intensive peripherals such as laser printers according to need;
 - Employ alternative energy sources for computing workstations, servers, networks and data centres; and
 - Adapt more of Web conferencing offers instead of travelling to meetings in order to go green and save energy.
- 25. (a)** The IT Steering Committee provides overall direction to deployment of IT and information systems in the enterprises. The key functions of the committee would include of the following:
- To ensure that long and short-range plans of the IT department are in tune with enterprise goals and objectives;
 - To establish size and scope of IT function and sets priorities within the scope;
 - To review and approve major IT deployment projects in all their stages;

- To approve and monitor key projects by measuring result of IT projects in terms of return on investment, etc.;
 - To review the status of IS plans and budgets and overall IT performance;
 - To review and approve standards, policies and procedures;
 - To make decisions on all key aspects of IT deployment and implementation;
 - To facilitate implementation of IT security within enterprise;
 - To facilitate and resolve conflicts in deployment of IT and ensure availability of a viable communication system exists between IT and its users; and
 - To report to the Board of Directors on IT activities on a regular basis.
- (b) Enterprises need to take steps to ensure compliance with cyber laws. Some key steps for ensuring compliance are given below:
- Designate a Cyber Law Compliance Officer as required.
 - Conduct regular training of relevant employees on Cyber Law Compliance.
 - Implement strict procedures in HR policy for non-compliance.
 - Implement authentication procedures as suggested in law.
 - Implement policy and procedures for data retention as suggested.
 - Identify and initiate safeguard requirements as applicable under various provisions of the Act such as: Sections 43A, 69, 69A, 69B, etc.
 - Implement applicable standards of data privacy on collection, retention, access, deletion etc.
 - Implement reporting mechanism for compliance with cyber laws.
- (c) System Maintenance can be categorized in the following ways:
- **Scheduled Maintenance:** Scheduled maintenance is anticipated and can be planned for operational continuity and avoidance of anticipated risks. For example, the implementation of a new inventory coding scheme can be planned in advance, security checks may be promulgated etc.
 - **Rescue Maintenance:** Rescue maintenance refers to previously undetected malfunctions that were not anticipated but require immediate troubleshooting solution. A system that is properly developed and tested should have few occasions of rescue maintenance.
 - **Corrective Maintenance:** Corrective maintenance deals with fixing bugs in the code or defects found during the executions. A defect can result from design errors, logic errors coding errors, data processing and system performance errors. The need for corrective maintenance is usually initiated by bug reports

drawn up by the end users. Examples of corrective maintenance include correcting a failure to test for all possible conditions or a failure to process the last record in a file.

- **Adaptive Maintenance:** Adaptive maintenance consists of adapting software to changes in the environment, such as the hardware or the operating system. The term environment in this context refers to the totality of all conditions and influences, which act from outside upon the system, for example, business rule, government policies, work patterns, software and hardware operating platforms. The need for adaptive maintenance can only be recognized by monitoring the environment.
- **Perfective Maintenance:** Perfective maintenance mainly deals with accommodating to the new or changed user requirements and concerns functional enhancements to the system and activities to increase the system's performance or to enhance its user interface.
- **Preventive Maintenance:** Preventive maintenance concerns with the activities aimed at increasing the system's maintainability, such as updating documentation, adding comments and improving the modular structure of the system. The long-term effect of corrective, adaptive and perfective changes increases the system's complexity. As a large program is continuously changed, its complexity, which reflects deteriorating structure, increases unless work is done to maintain or reduce it. This work is known as preventive change.

PAPER 7: DIRECT TAX LAWS

SECTION – A: STATUTORY UPDATE

The direct tax laws, as amended by the Finance Act, 2018, including significant notifications/circulars issued upto 31st October, 2018 are applicable for May, 2019 examination. The relevant assessment year for May, 2019 examination is A.Y.2019-20. The significant notifications/circulars issued upto 31st October, 2018, relevant for May, 2019 examination but not covered in the September, 2018 edition of the Study Material, are given hereunder.

STUDY MATERIAL MODULE-1

Chapter 3: Income which do not form part of Total Income

Computation of admissible deduction u/s 10AA of the Income-tax Act, 1961 [Circular No. 4/2018, Dated 14-8-2018]

As per the provisions of section 10AA(7), the profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the undertaking.

Further as per clause (i) to *Explanation 1* to section 10AA, "export turnover" means the consideration in respect of export by the undertaking, being the Unit of articles or things or services received in, or brought into, India by the assessee, but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

The issue of whether freight, telecommunication charges and insurance expenses are to be excluded from both "export turnover" and "total turnover" while working out deduction admissible under section 10AA on the ground that they are attributable to delivery of articles or things outside India has been highly contentious. Similarly, the issue whether charges for rendering services outside India are to be excluded both from "export turnover" and "total turnover" while computing deduction admissible under section 10AA on the ground that such charges are relatable towards expenses incurred in convertible foreign exchange in rendering services outside India has also been highly contentious.

The controversy has been finally settled by the Hon'ble Supreme Court vide its judgment dated 24.4.2018 in the case of Commissioner of Income Tax, Central-III Vs. M/s HCL Technologies Ltd. (CA No. 8489-8490 of 2013, NJRS Citation 2018-LL-0424-40), in relation to section 10A.

The issue had been examined by CBDT and it is clarified, in line with the above decision of the Supreme Court, that freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover", while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India.

Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.

Note: Though this CBDT Circular is issued in relation to erstwhile section 10A, the same is also relevant in the context of section 10AA. Accordingly, the reference to section 10A in the Circular and the relevant sub-section and Explanation number thereto have been modified and given with reference to section 10AA and the corresponding sub-sections, Explanation number and clause of Explanation.

Chapter 6: Profits and gains of business or profession

Determining fair market value of inventory on the date of conversion into capital asset [Notification No. 42/2018, dated 30-08-2018]

Section 28(via) has been inserted by the Finance Act, 2018 to provide that fair market value of the inventory on the date of its conversion or treatment as capital asset, determined in the prescribed manner, would be chargeable to tax as business income.

Accordingly, the CBDT, has vide this notification, inserted Rule 11UAB to prescribe the manner of determination of fair market value (FMV) of the inventory on the date of conversion.

[Note: For detailed reading of 11UAB of the Income-tax Rules, 1962, students may visit <https://www.incometaxindia.gov.in/Pages/default.aspx>]

Chapter 7: Capital Gains

Notification of transactions in equity shares in respect of which the condition of chargeability to STT at the time of acquisition for claiming concessional tax treatment under section 112A shall not apply [Notification No. 60/2018, dated 01-10-2018]

The Finance Act, 2018 has withdrawn exemption under section 10(38) and has inserted new section 112A in the Income-tax Act, 1961, to provide that long-term capital gains arising from transfer of a capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust, shall be taxed at 10% of such capital gains exceeding one lakh rupees. The said section, *inter alia*, provides that the provisions of the section shall apply to the capital gains arising from a transfer of long-term capital asset, being an equity share in a company, only if securities transaction tax (STT) has been paid on acquisition and transfer of such capital asset.

However, to provide for the applicability of the concessional tax regime under section 112A to genuine cases where the STT could not have been paid, it has also been provided in section 112A(4) that the Central Government may specify, by notification, the nature of acquisitions in respect of which the requirement of payment of STT shall not apply in the case of acquisition of equity share in a company.

In view of the above, the Central Government has, vide notification No. 60/2018, dated 1st October, 2018, notified that the condition of chargeability of STT shall not apply to the acquisition of equity shares entered into

- before 1st October, 2004 or
- on or after 1st October, 2004 which are not chargeable to STT, other than the following transactions.

In effect, only in respect of the following transactions mentioned in column (2), the requirement of paying STT at the time of acquisition for availing the benefit of concessional rate of tax under section 112A would apply. It may be noted that the exceptions are listed in column (3) against the transaction. The requirement of payment of STT at the time of acquisition for availing benefit of concessional tax rate under section 112A will not apply to acquisition transactions mentioned in column (3).

(1)	(2)	(3)								
	Transaction	Non-applicability of condition of chargeability of STT								
(a)	Where acquisition of existing listed equity share in a company whose equity shares are not frequently traded in a recognised stock exchange of India is made through a preferential issue	Where acquisition of listed equity share in a company— <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">(i)</td> <td>has been approved by the Supreme Court, High Court, National Company Law Tribunal, Securities and Exchange Board of India or Reserve Bank of India in this behalf;</td> </tr> <tr> <td style="text-align: center;">(ii)</td> <td>is by any non-resident in accordance with foreign direct investment guidelines issued by the Government of India;</td> </tr> <tr> <td style="text-align: center;">(iii)</td> <td>is by an investment fund referred to in clause (a) of Explanation 1 to section 115UB or a venture capital fund referred to in section 10(23FB) or a Qualified Institutional Buyer;</td> </tr> <tr> <td style="text-align: center;">(iv)</td> <td>is through preferential issue to which the provisions of chapter VII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 does not apply.</td> </tr> </table>	(i)	has been approved by the Supreme Court, High Court, National Company Law Tribunal, Securities and Exchange Board of India or Reserve Bank of India in this behalf;	(ii)	is by any non-resident in accordance with foreign direct investment guidelines issued by the Government of India;	(iii)	is by an investment fund referred to in clause (a) of Explanation 1 to section 115UB or a venture capital fund referred to in section 10(23FB) or a Qualified Institutional Buyer;	(iv)	is through preferential issue to which the provisions of chapter VII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 does not apply.
(i)	has been approved by the Supreme Court, High Court, National Company Law Tribunal, Securities and Exchange Board of India or Reserve Bank of India in this behalf;									
(ii)	is by any non-resident in accordance with foreign direct investment guidelines issued by the Government of India;									
(iii)	is by an investment fund referred to in clause (a) of Explanation 1 to section 115UB or a venture capital fund referred to in section 10(23FB) or a Qualified Institutional Buyer;									
(iv)	is through preferential issue to which the provisions of chapter VII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 does not apply.									

<p>(b) Where transaction for acquisition of existing listed equity share in a company is not entered through a recognised stock exchange in India</p>	<p>Following acquisitions of listed equity share in a company made in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956:</p>	
	(i)	<p>acquisition through an issue of share by a company other than through preferential the issue referred to in (a);</p>
	(ii)	<p>acquisition by scheduled banks, reconstruction or securitisation companies or public financial institutions during their ordinary course of business;</p>
	(iii)	<p>acquisition by the Supreme Court, High Courts, National Company Law Tribunal, Securities and Exchange Board of India or Reserve Bank of India in this behalf;</p>
	(iv)	<p>acquisition under employee stock option scheme or employee stock purchase scheme framed under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999;</p>
	(v)	<p>acquisition by any non-resident in accordance with foreign direct investment guidelines of the Government of India;</p>
	(vi)	<p>acquisition in accordance with Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulation, 2011;</p>
	(vii)	<p>acquisition from the Government;</p>
	(viii)	<p>acquisition by an investment fund referred to in clause (a) to Explanation 1 to section 115UB or a venture capital fund referred to in section 10(23FB) or a Qualified Institutional Buyer;</p>
(ix)	<p>acquisition by mode of transfer referred to in section 47 (e.g., transfer of capital asset under a gift, an irrevocable trust, transfer of capital asset between holding company and its subsidiary, transfer pursuant to amalgamation, demerger, etc.) or section 50B (slump sale) or section 45(3)</p>	

			(Introduction of capital asset as capital contribution in firm/ AOPs/ BOIs) or section 45(4) (Distribution of capital assets on dissolution of firm/ AOPs/ BOIs) of the Income-tax Act, if the previous owner or the transferor, as the case may be, of such shares has not acquired them by any mode referred to in (a), (b) or (c) listed in column (2) [other than the exceptions listed in column (3)]
(c)	acquisition of equity share of a company during the period beginning from the date on which the company is delisted from a recognised stock exchange and ending on the date immediately preceding the date on which the company is again listed on a recognised stock exchange in accordance with the Securities Contracts (Regulation) Act, 1956 read with Securities and Exchange Board of India Act, 1992 and the rules made thereunder;		

Chapter 8: Income from Other Sources

Exception notified for the purposes of clause (ii) of the proviso to section 56(2)(viib) [Notification No. 24/2018, dated 24-05-2018]

Where a company, other than a company in which public are substantially interested, issues shares at a premium to a person being a resident, section 56(2)(viib) brings to tax in the hands of such company, the difference between the aggregate consideration received for such shares as exceeds the fair market value of the shares under the head "Income from Other Sources".

However, such provision would not be attracted where the consideration for issue of such shares is received by a company from a class or classes of persons as may be notified by the Central Government in this behalf.

Earlier the Central Government had, vide Notification No. 45/2016, dated 14.6.2016, notified classes of persons, i.e., a person defined under section 2(31) of the Income-tax Act, 1961,

being a resident, who makes payment of an amount exceeding the face value of shares of the “startup” company, as consideration for issue of such shares.

In supersession of the above mentioned Notification, the Central Government has, vide this notification, notified that the provisions of section 56(2)(viib) shall not apply to consideration received by a company, being an eligible start-up for the purposes of deduction under section 80-IAC, for issue of shares that exceeds the face value of such shares, if the consideration has been received for issue of shares from an investor in accordance with the approval granted by the Inter-Ministerial Board of Certification under para 4(3)(i) of the notification number G.S.R. 364(E), dated 11th April, 2018 issued by the Department of Industrial Policy and Promotion.

Accordingly, vide this notification, the eligibility criteria for non-applicability of section 56(2)(viib) have been specified in relation to the recipient company rather than the class or classes of persons making payment for issue of shares to the company.

This notification shall be deemed to have come into effect from 11.04.2018.

Note – Accordingly, students are advised to ignore para 1 in page 8.10 of Module 1 of the Study Material and instead read this notification.

Further, for the meaning of the term “startup” and conditions specified in notification number G.S.R. 364(E), dated 11th April, 2018 issued by the Department of Industrial Policy and Promotion, students may refer page no. 8.10 of Module 1 of the Study material.

STUDY MATERIAL MODULE-3

Chapter 15: Deduction, Collection and Recovery of Tax

No tax is required to be deducted at source on interest payable on “Power Finance Corporation Limited 54EC Capital Gains Bond” and “Indian Railway Finance Corporation Limited 54EC Capital Gains Bond” - Notification No. 27 & 28/2018, dated 18-06-2018

Section 193 (Interest on securities) provides that the person responsible for paying to a resident any income by way of interest on securities shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax @ 10%, being the rates in force on the amount of the interest payable.

As per clause (iib) of the proviso to section 193, no tax is required to be deducted at source from any interest payable on such debentures, issued by any institution or authority, or any public sector company, or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as the Central Government may, by notification in the Official Gazette, specify in this behalf.

Accordingly, the Central Government has, vide this notification, specified -

- (i) "Power Finance Corporation Limited 54EC Capital Gains Bond" issued by Power Finance Corporation Limited {PFCL} and
- (ii) "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" issued by Indian Railway Finance Corporation Limited {IRFCL}

The benefit of this exemption would, however, be admissible in the case of transfer of such bonds by endorsement or delivery, only if the transferee informs PFCL/IRFCL by registered post within a period of sixty days of such transfer.

Chapter 18: Appeals and Revision

Revision of monetary limits for filing of appeals by the Department before Income Tax Appellate Tribunal, High Courts and SLPs/appeals before Supreme Court - Circular No. 3/2018, Dated 11-7-2018 and F. No. 279/Misc. 142/2007-ITJ (Pt), Dated 20-8-2018

Circular No. 21/2015 dated 10.12.2015 specified monetary limits and other conditions for filing departmental appeals (in Income-tax matters) before Income Tax Appellate Tribunal, High Courts and SLPs/ appeals before Supreme Court.

In supersession of the above Circular, it has been decided by the CBDT that departmental appeals may be filed on merits before Income Tax Appellate Tribunal and High Courts and SLPs/ appeals before Supreme Court keeping in view the monetary limits and conditions specified below.

Henceforth, appeals/ SLPs shall not be filed in cases where the tax effect does not exceed the monetary limits given hereunder:

S. No.	Appeals/SLPs in Income-tax matters	Monetary Limit (₹)
1.	Before Appellate Tribunal	20,00,000
2.	Before High Court	50,00,000
3.	Before Supreme Court	1,00,00,000

It is clarified that an appeal should not be filed merely because the tax effect in a case exceeds the monetary limits prescribed above. Filing of appeal in such cases is to be decided on merits of the case.

For further details regarding the meaning of 'tax effect' in different situations and methodology to be followed in such cases, the detailed circular may be referred.

Cases where adverse judgments should be contested on merits even if tax effect is less than the specified monetary limits

Adverse judgments relating to the issues enumerated hereunder should be **contested on merits** notwithstanding that the tax effect entailed is less than the monetary limits specified in para 3 thereof or there is no tax effect:

- (a) Where the Constitutional validity of the provisions of an Act or Rule is under challenge, or
- (b) Where Board's order, Notification, Instruction or Circular has been held to be illegal or ultra vires, or
- (c) Where Revenue Audit objection in the case has been accepted by the Department, or
- (d) Where addition relates to undisclosed foreign income/undisclosed foreign assets (including financial assets)/undisclosed foreign bank account.
- (e) Where addition is based on information received from external sources in the nature of law enforcement agencies such as CBI/ED/DRI/SFIO/Directorate General of GST Intelligence (DGGI).
- (f) Cases where prosecution has been filed by the Department and is pending in the Court.

STUDY MATERIAL MODULE-4

Chapter 1: Non-resident Taxation

Notification of exceptions, modifications and adaptations under Section 115JH for applicability of the provisions of the Income-tax Act on a foreign company said to be resident in India on account of PoEM [Notification No. 29/2018, dated 22-06-2018]

With effect from 1.4.2017, Chapter XII-BC consisting of Section 115JH has been inserted by the Finance Act, 2016 to provide that where a foreign company is said to be resident in India in any previous year on account of Place of Effective Management (PoEM) and such foreign company has not been resident in India in any of the previous years preceding the said previous year, then, notwithstanding anything contained in this Act and subject to the conditions as may be notified by the Central Government in this behalf, the provisions of this Act relating to the computation of total income, treatment of unabsorbed depreciation, set off or carry forward and set off of losses, collection and recovery and special provisions relating to avoidance of tax shall apply with such exceptions, modifications and adaptations as may be specified in that notification for the said previous year.

Accordingly, the Central Government has, vide this Notification, specified the exceptions, modifications and adaptations subject to which, the provisions of the Act relating to computation of income, treatment of unabsorbed depreciation, set-off or carry forward and set off of losses, special provision relating to avoidance of tax and the collection and recovery of taxes shall apply in a case where a foreign company is said to be resident in India in any previous year on account of its POEM being in India and the such foreign company has not been resident in India before the said previous year.

Particulars	Provisions
Determination of opening WDV	<u>If the foreign company is assessed to tax in the foreign jurisdiction</u> Where depreciation is required to be taken into account for the purpose of computation of its taxable income, the WDV of the depreciable asset as per the tax record in the foreign country on the

	<p>1st day of the previous year shall be adopted as the opening WDV for the said previous year.</p> <p>Where WDV is not available as per tax records, the WDV shall be calculated assuming that the asset was installed, utilised and the depreciation was actually allowed as per the provisions of the laws of that foreign jurisdiction. The WDV so arrived at as on the 1st day of the previous year shall be adopted to be the opening WDV for the said previous year.</p> <p><u>If the foreign company is not assessed to tax in the foreign jurisdiction</u></p> <p>WDV of the depreciable asset as appearing in the books of account as on the 1st day of the previous year maintained in accordance with the laws of that foreign jurisdiction shall be adopted as the opening WDV for the said previous year.</p>
Brought forward loss and unabsorbed depreciation	<p><u>If the foreign company is assessed to tax in the foreign jurisdiction</u></p> <p>Brought forward loss and unabsorbed depreciation as per the tax record shall be determined year wise on the 1st day of the said previous year.</p> <p><u>If the foreign company is not assessed to tax in the foreign jurisdiction</u></p> <p>Brought forward loss and unabsorbed depreciation as per the books of account prepared in accordance with the laws of that country shall be determined year wise on the 1st day of the said previous year.</p> <p><u>Other provisions</u></p> <p>Such brought forward loss and unabsorbed depreciation shall be deemed as loss and unabsorbed depreciation brought forward as on the 1st day of the said previous year and shall be allowed to be set off and carried forward in accordance with the provisions of the Act for the remaining period calculated from the year in which they occurred for the first time taking that year as the first year.</p> <p>However, the losses and unabsorbed depreciation of the foreign company shall be allowed to be set off only against such income of the foreign company which has become chargeable to tax in India on account of it becoming resident in India due to application of POEM.</p> <p>In cases where the brought forward loss and unabsorbed depreciation originally adopted in India are revised or modified in the foreign jurisdiction due to any action of the tax or legal authority, the amount of the loss and unabsorbed depreciation shall be revised or modified for the purposes of set off and carry forward in India.</p>
Period of profit and loss account	<p>The foreign company is required to prepare profit and loss account and balance sheet for the period starting from the date on which the accounting year immediately following said accounting year begins, upto</p>

<p>and balance sheet in cases where accounting year of foreign company does not end on 31st March</p>	<p>31st March of the year immediately preceding the period beginning with 1st April and ending on 31st March during which the foreign company has become resident.</p> <p>The foreign company is also required to prepare profit and loss account and balance sheet for succeeding periods of twelve months, beginning from 1st April and ending on 31st March, till the year the foreign company remains resident in India on account of its POEM.</p> <p>Examples:</p> <p>Example 1: If the accounting year of the foreign company is a calendar year and the company becomes resident in India during P.Y. 2018-19 for the first time due to its POEM being in India, then, the company is required to prepare profit and loss account and balance sheet for the period 1st January, 2018 to 31st March, 2018. It is also required to prepare profit and loss account and balance sheet for the period 1st April, 2018 to 31st March, 2019.</p> <p>For the purpose of carry forward of loss and unabsorbed depreciation in this case, since the period 1st January, 2018 to 31st March, 2018 is less than 6 months, it is to be included in the accounting year immediately preceding the accounting year in which the foreign company is held to be resident in India for the first time. Accordingly, the profit and loss and balance sheet of the 15 month period from 1 January, 2017 to 31st March, 2018 is to be prepared.</p> <p>Example 2: If the accounting year of the foreign company is from 1st July to 30th June and the company becomes resident in India during P.Y. 2018-19 for the first time due to its POEM being in India, then, the company is required to prepare profit and loss account and balance sheet for the period 1st July, 2017 to 31st March, 2018. It is also required to prepare profit and loss account and balance sheet for the period 1st April, 2018 to 31st March, 2019.</p> <p>For the purpose of carry forward of loss and unabsorbed depreciation in this case, since the period is more than 6 months, it is to be treated as a separate accounting year.</p> <p>The loss and unabsorbed depreciation as per tax record or books of account, as the case may be, of the foreign company shall, be allocated on proportionate basis.</p>
<p>Applicability of provisions of Chapter XVII-B (TDS provisions)</p>	<p>Where more than one provision of Chapter XVII-B of the Act applies to the foreign company as resident as well as foreign company, the provision applicable to the foreign company alone shall apply.</p> <p>Compliance to those provisions of Chapter XVII-B of the Act as are applicable to the foreign company prior to its becoming Indian resident shall be considered sufficient compliance to the provisions of said Chapter.</p>

	The provisions of section 195(2) relating to application to Assessing Officer to determine the appropriate proportion of sum chargeable to tax shall apply in such manner so as to include payment to the foreign company.
Availability of deduction under section 90 or 91 (Foreign tax credit)	The foreign company shall be entitled to relief or deduction of taxes paid in accordance with the provisions of section 90 or section 91 of the Act. Where income on which foreign tax has been paid or deducted, is offered to tax in more than one year, credit of foreign tax shall be allowed across those years in the same proportion in which the income is offered to tax or assessed to tax in India in respect of the income to which it relates and shall be in accordance with the provisions of rule 128 of the Income-tax Rules, 1962 [Given as Annexure 4 at the end of this material].
Non applicability of the notification	The above exceptions, modifications and adaptations shall not apply in respect of such income of the foreign company which otherwise would have been chargeable to tax in India, even if the foreign company had not become Indian resident.
Applicability of the notification where foreign company becomes resident in the subsequent previous year also	In a case where the foreign company is said to be resident in India during a previous year, immediately succeeding a previous year during which it is said to be resident in India; the exceptions, modifications and adaptations shall apply to the said previous year subject to the condition that the WDV, the brought forward loss and the unabsorbed depreciation to be adopted on the 1st day of the previous year shall be those which have been arrived at on the last day of the preceding previous year in accordance with the provisions of this notification.
No effect on other transactions	<i>Any transaction of the foreign company with any other person or entity under the Act shall not be altered only on the ground that the foreign company has become Indian resident.</i>
Applicability of other provisions relating to foreign company	Subject to the above exceptions, modifications and adaptations specifically provided vide this notification, the foreign company shall continue to be treated as a foreign company even if it is said to be resident in India and all the provisions of the Act shall apply accordingly. Consequently, the provisions specifically applicable to,— (i) a foreign company, shall continue to apply to it; (ii) non-resident persons, shall not apply to it; and (iii) the provisions specifically applicable to resident, shall apply to it.
Applicability of tax rate on foreign company	In case of conflict between the provision applicable to the foreign company as resident and the provision applicable to it as foreign company, the later shall generally prevail. Therefore, the rate of tax in case of foreign company i.e., 40% shall

	remain the same, i.e., rate of income-tax applicable to the foreign company even though residency status of the foreign company changes from non-resident to resident on the basis of POEM.
Applicability of notification	This notification shall be deemed to have come into force from the 1st April, 2017.
Meaning of foreign jurisdiction	The place of incorporation of the foreign company.
Applicability of rule 115 of the Income-tax Rules, 1962.	The rate of exchange for conversion into rupees of value expressed in foreign currency, wherever applicable, shall be in accordance with provision of rule 115 of the Income-tax Rules, 1962. [Given as Annexure 2 at the end of this material]

Exemption to interest income on specified off-shore Rupee Denominated Bonds [Press Release, dated 17-09-2018]

Interest payable by an Indian company or a business trust to a non-resident, including a foreign company, in respect of rupee denominated bond issued outside India before 1.7.2020 is liable for concessional rate of tax of 5%. Consequently, section 194LC provides for the deduction of tax at a lower rate of 5% on the said interest payment.

Consequent to review of the state of economy on 14.9.2018 by the Prime Minister, the Finance Minister has announced a multi-pronged strategy to contain the Current Account Deficit (CAD) and augment the foreign exchange inflow. In this background, low cost foreign borrowings through off-shore rupee denominated bond have been further incentivised to increase the foreign exchange inflow.

Accordingly, it has been decided that interest payable by an Indian company or a business trust to a non-resident, including a foreign company, in respect of rupee denominated bond issued outside India during the period from 17.9.2018 to 31.3.2019 shall be exempt from tax, and consequently, no tax shall be deducted on the payment of interest in respect of the said bond under section 194LC.

SECTION – B: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

From the options (a), (b), (c) and (d) given in each question, choose the most appropriate option.

- (i) A Pvt. Ltd. is a closely held Indian company. It is a subsidiary of a foreign company Y Inc. which had already issued 5,00,000 shares to its shareholders. During P.Y. 2017-18, it incurred a loss of ₹ 10 crores which couldn't be set off and hence, was carried forward. Further, there was also unabsorbed depreciation of ₹ 1 crore. During P.Y. 2018-19, Y Inc. amalgamated with Z Inc. and persons holding 2,45,000 shares of Y Inc. became the

shareholders of Z Inc. Determine whether the brought forward loss of ₹ 10 crores and unabsorbed depreciation of ₹ 1 crore can be set off by A Pvt. Ltd. during P.Y. 2018-19.

- (a) Loss cannot be set off but the unabsorbed depreciation can be set off.
 - (b) Loss can be set off but the unabsorbed depreciation cannot be set off.
 - (c) Both loss and unabsorbed depreciation can be set off.
 - (d) Both loss and unabsorbed depreciation cannot be set off
- (ii) Mr. Shiv was travelling from Delhi to Jodhpur on 05.07.2018 carrying FDRs of ₹ 20 Lakhs. The said FDRs were seized by the police authorities and subsequently, requisitioned by the income-tax authorities u/s 132A. The requisition was made on 20.07.2018. Now, the Assessing Officer has issued notices to Shiv u/s 153A for A.Y. 2009-10 to A.Y. 2018-19. Whether the said notices issued by the Assessing Officer u/s 153A are valid?
- (a) Invalid. Notices can be issued u/s 153A in the present case by the Assessing Officer only for A.Y. 2013-14 to A.Y. 2018-19, since FDRs do not constitute an asset for the purpose of section 153A.
 - (b) Invalid. Notices can be issued u/s 153A in the present case by the Assessing Officer for A.Y. 2013-14 to A.Y. 2019-20.
 - (c) Notices are valid for A.Y. 2013-14 to A.Y. 2018-19. However, for A.Y. 2009-10 to A.Y. 2012-13, notices can be issued u/s 153A only if the Assessing Officer has any evidence which reveals that income, represented in form of asset is greater than or equal to ₹ 50 lakhs.
 - (d) Notices are valid for A.Y. 2009-10 to A.Y. 2018-19 as notices in case of requisition can be issued for 10 assessment years immediately preceding the A.Y. relevant to the P.Y. in which requisition is made.
- (iii) XYZ is a charitable trust registered u/s 12AA w.e.f 01.04.2010. During the P.Y. 2017-18, it received a specific corpus donation for construction of building which was claimed as exempt u/s 11 during the said previous year. Now, during the P.Y. 2018-19, it desires to claim depreciation on such building as application of its income. Comment upon the validity of the said claim of depreciation.
- (a) Depreciation can be claimed as the acquisition of building was not claimed as application of income u/s 11(1)(a).
 - (b) Depreciation cannot be claimed as the specific corpus donation was already claimed as exempt during P.Y. 2017-18.
 - (c) Depreciation can be claimed as it is a statutory deduction and no restriction regarding the same has been provided in section 11.

- (d) It is upon the discretion of XYZ to either claim specific corpus donation for construction of building as exempt in the year of receipt or claim depreciation on building as application of income during various years.
- (iv) A is a resident individual aged 45 years. Find out his tax liability for A.Y. 2019-20 on the basis of the following particulars:

Business income	5,00,000
Dividend from different domestic companies (dividend distribution tax has been paid by these companies)	
- G Ltd.	40,00,000
- H Ltd.	10,000
- I Ltd.	11,90,000
Expenditure for earning dividend income	2,60,000

- (a) ₹ 4,49,800
 (b) ₹ 6,09,180
 (c) ₹ 4,22,760
 (d) ₹ 13,000
- (v) The tax liability of Mr. Sunil for the financial year 2018-19 came to ₹ 1,54,000. He has paid advance tax of ₹ 1,38,000 and there was a TDS credit of ₹ 44,000 in his account. He filed his return of income on 30th July, 2019 claiming the refund due. His assessment was completed under section 143(1) and he was granted the refund on 15th February, 2020. Subsequently, his case was selected for scrutiny and his income was assessed under section 143(3). As per the assessment order dated 25th August, 2020, his income was recomputed after making certain additions and his revised tax liability was computed at ₹ 1,76,000. Whether he will be liable to pay any interest on the excess refund granted to him? If yes, then for what period?
- (a) Sunil will be liable to pay interest on the excess refund of ₹ 22,000 at the rate of ½ percent for a period of 7 months.
 (b) Sunil will not be liable to pay any interest on the excess refund granted to him.
 (c) Sunil will be liable to pay interest on the excess refund of ₹ 22,000 at the rate of 1 percent for a period of 6 months.
 (d) Sunil will be liable to pay interest on the total refund of ₹ 28,000 at the rate of ½ percent for a period of 7 months.
- (vi) P Ltd. is a domestic company which filed its return of income for A.Y. 2019-20 declaring a total income of ₹ 1,15,00,000. The assessment in its case was opened by the Assessing Officer by issuing notice u/s 143(2). The Assessing Officer doubted the

genuineness of loans taken by the company and added an amount of ₹ 5,00,000 to the total income u/s 68 as cash credits. What shall be the effective rate at which the said income of ₹ 5,00,000 shall be taxable in the hands of P Ltd.?

- (a) 77.25 %
 - (b) 66.768 %
 - (c) 78 %
 - (d) 33.384 %
- (vii) Mr. A who is the tax consultant of X Pvt. Ltd. is computing the income from business of the company for A.Y. 2018-19 for determining the tax liability. X Pvt. Ltd. is not liable for tax audit u/s 44AB during the said year. While computing the business income under the normal provisions of the Income-tax Act, 1961, Mr. A has duly considered the provisions of the Income Computation and Disclosure Standards ("ICDS") wherever applicable. However, Mr. A is confused regarding the applicability of ICDS while computing book profits for determining the MAT liability of the company u/s 115JB. Advise Mr. A regarding the same.
- (a) Provisions of ICDS will not apply while computing "book profits" for the purposes of MAT as ICDS are applicable only for computation of income under the regular provisions of the Income-tax Act, 1961.
 - (b) Provisions of ICDS will apply while computing "book profits" for the purposes of MAT as ICDS are applicable for computing income under the "Profits and gains of business or profession", whether computed under the normal provisions or on the basis of book profits under MAT provisions.
 - (c) Provisions of ICDS will not apply while computing "book profits" for the purposes of MAT as ICDS are not applicable in the case of an assessee not liable for tax audit.
 - (d) Provisions of ICDS will apply while computing "book profits" for the purposes of MAT as no exception regarding the same has been carved out in the notification with respect to ICDS.
- (viii) Mr. X purchases 1,000 unlisted equity shares of ₹ 10 each in A Ltd. on 10.05.2018 @ ₹ 60. On 20.10.2018, he transfers 800 equity shares @ ₹ 30 per share and remaining 200 shares are transferred on 20.12.2018 @ ₹ 20 per share. A Ltd. declares 50 percent dividend (record date: 03.08.2018). Also, during the previous year 2018-19, X has also earned long term capital gain of ₹ 96,000 on sale of a capital asset. Compute the amount of short term capital loss on sale of shares in question that can be set off from the long term capital gain of ₹ 96,000.
- (a) ₹ 28,000
 - (b) ₹ 32,000
 - (c) ₹ 27,000
 - (d) ₹ 8,000

- (ix) Mr. Gagan, aged 67 years and resident, is a retired person earning a monthly pension of ₹ 12,000 from his employer. He purchased a piece of land in Delhi in December, 2010 and sold the same in April, 2018. Taxable LTCG amounted to ₹ 2,80,000. Apart from pension income and gain on sale of land, he is not having any other income. What will be his tax liability (rounded off) for the year 2018-19?
- (a) ₹ 25,790
 (b) ₹ 6,450
 (c) ₹ 4,370
 (d) ₹ 17,470
- (x) ABC India Pvt. Ltd and XYZ India Pvt. Ltd are related parties, as defined under section 40A(2)(b), who have entered into a transaction for purchase of goods for ₹ 25 lacs on 2nd April, 2018. The Arm Length Price for such goods is ₹ 15 lacs. Aggregate value of such transactions in the previous year 2018-19 is ₹ 22.5 crores. Can the transaction be considered as a specified domestic transaction to attract transfer pricing provisions?
- (a) Yes, as the aggregate transaction value exceeds ₹ 20 crores
 (b) Yes, as parties are related parties.
 (c) No, transfer pricing provisions are not applicable in this case
 (d) Yes, since parties are related parties and the aggregate transaction value exceeds ₹ 20 crores

DESCRIPTIVE QUESTIONS

1. Mr. Prem commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2018.

	Particulars	Food grains	Sugar	Edible Oil
		₹ in lakhs		
(1)	Profits from business (computed) before allowing deduction under section 35AD/section 32	125	60	30
(2)	Capital expenditure on land and building purchased exclusively for the business (January 2018 - March 2018) and capitalized in the books of account as on 1 st April, 2018	120	90	75
(3)	Cost of land included in (2) above	75	60	45
(4)	Capital expenditure incurred during P.Y.2018-19 on extension/reconstruction of building purchased and used exclusively for the business	30	20	10

Compute Mr. Prem's total income and tax liability for the A.Y.2019-20, assuming that Mr. Prem does not have any income other than income from the above businesses.

2. Compute the long-term capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) for the A.Y.2019-20, in the four independent cases given below:

	Name of Co.	No. of shares	Date of acquisition	Cost of acquisition (per share)	Date of transfer	Sale price (per share)	FMV as on 31.1.2018 (per share)
Mr. Ganesh	A Ltd.	1,000	28.12.2016	₹ 1,000	1.5.2018	₹ 2,500	₹ 2,000
Mr. Rajesh	B Ltd.	2,000	30.11.2016	₹ 3,000	1.6.2018	₹ 5,000	₹ 6,500
Mr. Sridhar	C Ltd.	3,000	1.1.2017	₹ 2,000	1.7.2018	₹ 3,000	₹ 1,500
Mr. Vaibhav	D Ltd.	4,000	15.1.2017	₹ 4,000	1.8.2018	₹ 2,500	₹ 6,000

3. Mr. Dheeraj has commenced the business of manufacture of paper on 1.4.2018. He employed 180 new employees during the P.Y.2018-19, the details of whom are as follows -

	No. of employees	Date of employment	Regular/ Contractual	Total monthly emoluments per employee (₹)
(i)	51	1.4.2018	Regular	23,000
(ii)	46	1.6.2018	Regular	26,000
(iii)	48	1.8.2018	Contractual	27,000
(iv)	35	1.10.2018	Regular	24,000

The regular employees participate in recognized provident fund while the contractual employees do not. The emoluments are paid by use of ECS through a bank account.

- (i) Compute the deduction, if any, available to Mr. Dheeraj for A.Y.2019-20, if the profits and gains derived from manufacture of paper that year is ₹ 74 lakh and his total turnover is ₹ 2.56 crore.
- (ii) Would your answer change if Mr. Dheeraj has commenced the business of manufacturing of leather products (and not paper) on 1.4.2018 and the above particulars related to such business?

4. M/s Satpura & Co., a partnership firm, has earned a gross total income of ₹ 420 lacs for the year ended 31-3-2019. The firm has undertaken few international transactions during the year 2018-19 and has to file transfer pricing report.

The Gross Total Income includes a profit of ₹ 330 lacs derived from the business of developing a SEZ, eligible for deduction under section 80-IAB. This is the fifth year of operation and M/s Satpura & Co. is a developer.

There are some grey areas in the taxation workings and hence, the firm is contemplating to file the return of income on 10.01.2020, after seeking clarifications from tax experts.

Advise the assessee-firm by working out the total income and tax payable, the appropriate due date of filing return of income.

What is the practical solution as regards obtaining clarifications, which might or might not have an impact on the total income?

5. Mega Tea Ltd. is a tea company engaged in cultivating and processing tea in its factory for marketing. The company distributed dividend of ₹ 25 lakhs to its shareholders. The Assessing Officer was of the view that the entire dividend is subject to dividend distribution tax. The company, however, contended that the tax on dividend declared by it in this case is nothing but a tax on agricultural income; and the legislative competence for taxing agricultural income lies with the State Government and not the Central Government. On appeal, the Appellate Authority held that since the company is carrying on cultivation of tea, which is an agricultural process as also the processing of tea in the factory, which is an industrial process, 40% of dividend distributed by the company is to be taxed under Section 115-O. Discuss the correctness or otherwise of the contention of the Appellate Authority.
6. Rhombus (P) Limited is engaged in manufacture and sale of ceramic tiles. The net profit of the company as per its profit and loss account for the year ended 31st March, 2019 is ₹ 210 lakh after debiting or crediting the following items:
- (i) One-time license fee of ₹ 32 lakh paid to ABC Ltd (an Indian company) for obtaining franchise on 1st June, 2018.
 - (ii) ₹ 32,000 paid to Beta & Co., a goods transport operator, in cash on 31st January, 2019 for carrying company's products to the warehouse.
 - (iii) Rent of ₹ 50,000 p.m. received from letting out a part of its office premises. Municipal tax in respect of the said part of the building is ₹ 8,000 remains unpaid due to court litigation.
 - (iv) ₹ 1 lakh, being contribution to a scientific research association approved and notified under section 35(1)(ii).
 - (v) ₹ 2 lakh, being loss due to destruction of a machinery caused by a fire due to short circuit. The Insurance Company did not admit the claim of the company.
 - (vi) ₹ 5 lakh paid to a contractor for repair work at the company's factory. No tax was deducted on such payment.

- (vi) Dividend of ₹ 10,000 from Gama Limited on 1,000 equity shares of ₹ 10 each purchased at ₹ 100 per share on 10th October, 2018. The rate of dividend declared is 100%, the record date being 10th December, 2018. The shares were sold on 1st March, 2019 at ₹ 80 per share.
- (viii) Depreciation on tangible fixed assets as per books of account ₹ 2.20 lakh.

Additional Information:

- (i) Depreciation on tangible fixed assets as per Income-tax Rules ₹ 2.60 lakh.
- (ii) The company has obtained a loan of ₹ 2 lakh from Theta Private Limited in which it holds 16% voting rights. The accumulated profits held by Theta Private Limited on the date of loan were ₹ 0.50 lakh.

Compute total income of Rhombus (P) Ltd. for the Assessment Year 2019-20 indicating reasons for treatment of each item. Ignore the provisions relating to minimum alternate tax.

7. Edu All Charitable Trust registered under section 12AA, following cash system of accounting, furnishes you the following information for P.Y. 2018-19:
- (i) Gross receipts from hospital ₹ 200 lakhs.
- (ii) Gross receipts from medical college ₹ 95 lakhs (offering recognized degree courses).
- (iii) Corpus donations by way of cheque ₹ 42 lakhs and by way of cash ₹ 6 lakhs.
- (iv) Anonymous donations by cash ₹ 12 lakhs.
- (v) Administrative expenses for hospital ₹ 75 lakhs.
- (vi) Fees not realized from patients ₹ 18,00,000 as on 31st March, 2019.
- (vii) Depreciation on assets of the trust ₹ 37,50,000. The entire cost of assets ₹ 250 lakhs claimed as application in the earlier years.
- (viii) Acquired a building for ₹ 80 lakhs on 01.06.2018 for expansion of hospital (cost of land included therein ₹ 50 lakhs). Stamp duty value of the land and building on the date of registration of sale deed ₹ 210 lakhs.
- (ix) The trust gave corpus donation of ₹ 19 lakhs to Help Aid Trust having objects of charitable nature registered under section 12AA but not similar to the objects of the donor trust.

You are required to compute the total income of the trust and its income-tax liability in such a manner that it can avail the optimal benefit within the four corners of the Income-Tax Act, 1961.

Note: The trust does not want to seek accumulation of income by virtue of section 11(2) of the Act.

8. Auto Ltd., a manufacturer of automobiles, sells premium cars (each of value between ₹12 lakh to ₹25 lakh) and small cars (each of value between ₹5 lakh to ₹ 9 lakh) to its dealers across the country. Discuss whether the manufacturers are liable to collect tax at source under section 206C.

Also, discuss the liability, if any, of dealers to collect tax at source on sale of these cars to the retail customers, if no part of the consideration is received in cash? Would your answer change, if part of the consideration is received in cash?

9. The assessment of Lambda Ltd. was completed under section 143(3) with an addition of ₹ 22 lakhs to the returned income. The assessee-company preferred an appeal before the Commissioner (Appeals) which is pending now.

In this backdrop, answer the following:

- (i) Based on fresh information that there was escapement of income for the same assessment year, can the Assessing Officer initiate reassessment proceedings when the appeal is pending before Commissioner (Appeals)?
 - (ii) Can the Assessing Officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?
 - (iii) Can the assessee-company seek revision under section 264 in respect of matters other than those preferred in appeal?
 - (iv) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?
10. Examine the correctness or otherwise of the following statements with reference to the provisions of the Income-tax Act, 1961:
- (i) The Commissioner (Appeals) cannot admit an appeal filed beyond 30 days from the date of receipt of order by an assessee.
 - (ii) The Appellate Tribunal is empowered to grant indefinite stay for the demand disputed in appeals before it.
11. Examine the powers of the Settlement Commission to -
- (i) rectify a mistake apparent from the record
 - (ii) grant immunity from prosecution and penalty
12. Mr. Vallish had approached the Settlement Commission for waiver of interest under sections 234A to 234C of the Income-tax Act, 1961. The Settlement Commission partially waived the interest but refused to grant interest on refund on the grounds that section 244A does not provide for payment of interest in such cases. Further, the Settlement Commission contended that its power to waive interest does not enable it to provide for payment of interest under section 244A. Discuss the correctness of the Settlement Commission's action in denying to grant interest on refund.

13. (i) Xylo Inc., a US company, received income by way of fees for technical services of ₹2 crore from Alpha Ltd., an Indian company, in pursuance of an agreement between Alpha Ltd. and Xylo Inc. entered into in the year 2012, which is approved by the Central Government. Expenses incurred for earning such income is ₹ 8 lakhs. Examine the taxability of the above sum in the hands of Xylo Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Xylo Inc does not have a permanent establishment in India
- (ii) If Xylo Inc. has a permanent establishment in India and the contract/agreement with Alpha Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided –

	Particulars	Amount
(1)	Fees for technical services received from Alpha Ltd.	₹ 2 crore
(2)	Expenses incurred for earning such income	₹ 8 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2005 to 2010	₹ 4 crore
(4)	Expenses incurred for earning such income	₹ 15 lakhs
(5)	Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]	₹ 6 lakhs
(6)	Amounts paid by the PE to Head Office (not being in the nature of reimbursement of actual expenses)	₹ 12 lakhs

What are the other requirements, if any, under the Income-tax Act, 1961 in this case?

14. Mr. Hari, an individual resident in India aged 59 years, furnishes you the following particulars of income earned in India, Foreign Countries "P" and "Q" for the previous year 2018-19. Compute the total income and tax payable by Mr. Hari in India for A.Y. 2019-20 assuming that India has not entered into double taxation avoidance agreement with countries P & Q.

Particulars	₹
Indian Income:	
Income from business carried on in Calcutta	4,40,000
Interest on savings bank with HDFC Bank	42,000
Income earned in Foreign Country "P" [Rate of tax – 16%]:	
Agricultural income in Country "P"	94,000
Royalty income from a book on art from Country "P" (Gross)	7,80,000
Expenses incurred for earning royalty	50,000

Income earned in Foreign Country "Q" [Rate of tax – 20%]:	
Dividend received from a company incorporated in Country "Q"	2,65,000
Rent from a house situated in Country "Q" (gross)	3,30,000
Municipal tax paid in respect of the above house (not allowed as deduction in Country "Q")	10,000

15. (i) Research & Co. is engaged in providing scientific research services to several non-resident clients. Such services are also provided to B Inc., which guarantees 15% of the total loans of Research & Co. Examine whether transfer pricing provisions are attracted in respect of this transaction.
- (ii) Without prejudice to the answer to (i) above, assuming that transfer pricing provisions are attracted in this case and that the Assessing Officer had made a primary adjustment of ₹ 225 lakhs to transfer price in the P.Y.2016-17 vide order dated 1.4.2018 and the same was accepted by Research & Co., what are the consequent requirements as per the Income-tax Act, 1961 and the implications of non-compliance with the said requirements? Assume that the transaction is denominated in Indian Rupees and no amount has been repatriated upto 31.3.2019. The one year marginal cost of fund lending rate of State Bank of India as on 1.4.2018 is 8.15%.
16. Narmada Ltd., an Indian Company has borrowed ₹ 80 crores on 01-04-2018 from M/s. Thames Inc, a Company incorporated in London, at an interest rate of 10% p.a. The said loan is repayable over a period of 5 years. Further, loan is guaranteed by M/s Tyne Inc. incorporated in UK. M/s. Tweed Inc, a non-resident, holds shares carrying 40% of voting power both in M/s Narmada Ltd. and M/s Tyne Inc.
- Net profit of M/s. Narmada Ltd. for P.Y. 2018-19 was ₹ 7 crores after debiting the above interest, depreciation of ₹ 4 crores and income-tax of ₹ 3 crores. Calculate the amount of interest to be disallowed under the head "Profits and gains of business or profession" in the computation of M/s Narmada Ltd., giving appropriate reasons.

MOST APPROPRIATE OPTION

- (i) (a)
(ii) (c)
(iii) (a)
(iv) (a)
(v) (a)
(vi) (c)
(vii) (a)

(viii) (a)

(ix) (d)

(x) (c)

SUGGESTED ANSWERS/HINTS

1. **Computation of total income of Mr. Prem for A.Y.2019-20**

Particulars	₹ (in lakhs)	
Profits and gains of business or profession		
Profits and gains from the specified business of setting up a warehousing facility for storage of food grains and sugar [See Working Note below]		60.00
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	30.00	
Less: Depreciation under section 32		
10% of ₹ 40 lakh, being (₹ 75 lakh – ₹ 45 lakh + ₹ 10 lakh)	<u>4.00</u>	<u>26.00</u>
Total Income		86.00

Computation of tax liability for A.Y.2019-20

Particulars	₹ in lakhs	
Tax liability under the normal provisions of the Income-tax Act, 1961 [30% of ₹ 76 lakhs (₹ 86 lakhs – ₹ 10 lakhs) + ₹ 1,12,500]		23.93
Add: Surcharge @10% (Since total income > ₹ 50 lakhs but does not exceed ₹ 1 crore)		2.39
		26.32
Add: Health and education cess @4%		1.05
Total tax liability		27.37
Adjusted Total Income	₹ in lakhs	
Total Income		86.00
Add: Deduction under section 35AD [See Working Note below]	125.00	
Less: Depreciation under section 32 [10% of ₹ 125 lakh]	<u>12.50</u>	<u>112.50</u>
Adjusted Total Income		198.50
AMT @18.5%		36.72
Add: Surcharge @15% (Since adjusted total income > ₹ 1 crore)		5.51
		42.23
Add: Health and Education cess @4%		1.69
Tax liability under section 115JC		43.92

Since the regular income-tax payable is less than the AMT payable, the adjusted total income of ₹ 198.50 lakhs shall be deemed to be the total income of Mr. Prem and tax is payable @18.5% thereof <i>plus</i> surcharge@15% (since adjusted total income exceeds ₹ 1 crore) <i>plus</i> cess@4%. Therefore, the tax liability is ₹ 43.92 lakhs.	
AMT Credit to be carried forward under section 115JD	
Tax liability under section 115JC	43.92
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	27.37
	16.55

Working Note:**Computation of income from specified business under section 35AD**

	Particulars	Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	125.00	60.00	185.00
	Less: Deduction under section 35AD			
(B)	Capital expenditure incurred prior to 1.4.2018 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2018 (excluding the expenditure incurred on acquisition of land) = ₹ 45 lakh (₹ 120 lakh – ₹ 75 lakh) and ₹ 30 lakh (₹ 90 lakh – ₹ 60 lakh)	45.00	30.00	75.00
(C)	Capital expenditure incurred during the P.Y.2018-19	30.00	20.00	50.00
(D)	Total capital expenditure (B + C)	75.00	50.00	125.00
(E)	Deduction under section 35AD 100% of capital expenditure	75.00	50.00	125.00
(F)	Profits from specified business of setting up and operating a warehousing facility for storage of food grains and sugar (A-E)	50.00	10.00	60.00

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2019-20 in respect of specified business of setting up and operating a warehousing facility for storage of food grains and sugar.
- (ii) Since setting up and operating a warehousing facility for storage of edible oil is not a specified business, Mr. Prem is not eligible for deduction under section 35AD in

respect of capital expenditure incurred for such business. Mr. Prem can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2018-19.

2. For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented mutual fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of
- (i) cost of acquisition of such asset; and
 - (ii) lower of
 - (a) the fair market value of such asset; and
 - (b) the full value of consideration received or accruing as a result of the transfer of the capital asset.

In short, the cost of acquisition for the long-term capital asset acquired on or before 31.01.2018 will be the actual cost.

However, if the actual cost is less than the fair market value of such asset as on 31.01.2018, the fair market value will be deemed to be the cost of acquisition.

Further, if the full value of consideration on transfer is less than the fair market value, then such full value of consideration or the actual cost, whichever is higher, will be deemed to be the cost of acquisition.

In the four independent cases given in the question, the shares are long-term capital asset, since they are held for a period of more than 12 months preceding the date of its transfer. Accordingly, long-term capital gain/loss on transfer of STT paid listed equity shares would be determined as follows:

Person	Particulars	LTCG/LTCL (in ₹)
Mr. Ganesh	In this case, the cost of acquisition of equity share of A Ltd. would be ₹ 2,000, being higher of actual cost i.e., ₹ 1,000 and ₹ 2,000 (being the lower of FMV of ₹ 2,000 as on 31.1.2018 and actual sale consideration of ₹ 2,500). Thus, the long-term capital gain would be (₹ 2,500 – ₹ 2,000) x 1,000 shares.	5,00,000
Mr. Rajesh	In this case, the cost of acquisition of equity shares of B Ltd. would be ₹ 5,000, being higher of actual cost i.e., ₹ 3,000 and ₹ 5,000 (being the lower of FMV of ₹ 6,500 as on 31.1.2018 and actual sale consideration of ₹ 5,000).	Nil

	In other words, actual cost of acquisition (i.e., ₹ 3,000) is less than the FMV of ₹ 6,500 as on 31.1.2018. However, the sale value of ₹ 5,000 is also less than the FMV of ₹ 6,500 as on 31.1.2018. Accordingly, the sale value of ₹ 5,000 will be taken as the cost of acquisition. The long-term capital gains would be Nil (₹ 5,000 – ₹ 5,000) x 2,000 shares.	
Mr. Sridhar	In this case, the cost of acquisition of equity shares of C Ltd. would be ₹ 2,000, being higher of actual cost i.e., ₹ 2,000 and ₹ 1,500 (being the lower of FMV of ₹ 1,500 as on 31.1.2018 and actual sale consideration of ₹ 3,000). In other words, the FMV of equity shares of C Ltd. on 31.1.2018 (i.e., ₹ 1,500) is less than ₹ 2,000, being the actual cost of acquisition of equity shares, and therefore, the actual cost of ₹ 2,000 would be taken as cost of acquisition. Accordingly, the long-term capital gains would be (₹ 3,000 – ₹ 2,000) x 3,000	30,00,000
Mr. Vaibhav	In this case, the cost of acquisition of equity shares of D Ltd. would be ₹ 4,000, being higher of actual cost i.e., ₹ 4,000 and ₹ 2,500 (being the lower of FMV of ₹ 6,000 as on 31.1.2018 and actual sale consideration of ₹ 2,500). In other words, the actual cost of acquisition of equity shares D Ltd. (i.e., ₹ 4,000) is less than the FMV of ₹ 6,000 as on 31.1.2018. However, the sale value of ₹ 2,500 is also less than the FMV of ₹ 6,000 as on 31.1.2018 and also the cost of acquisition. Accordingly, the actual cost of ₹ 4,000 will be taken as the cost of acquisition. The long-term capital loss would be ₹ 6,00,000 (₹ 2,500 – ₹ 4,000) x 4,000 shares.	(60,00,000)

3. (i) **Case 1: Where Mr. Dheeraj has commenced the business of manufacture of paper on 1.4.2018**

Mr. Dheeraj is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2019-20, as his total turnover from business exceeds ₹ 1 crore and he has employed “additional employees” during the P.Y.2018-19. Also, emoluments are paid by use of ECS through a bank account. Since this is the first year of his new business, emoluments paid or payable to employees employed during this year shall be deemed to be the additional employee cost.

Deemed additional employee cost = ₹ 23,000 × 12 × 51 [See Working Note below]
= ₹ 1,40,76,000

Deduction under section 80JJAA = 30% of ₹ 1,40,76,000 = ₹ 42,22,800.

Working Note:

Number of additional employees

Particulars	No. of employees	
Total number of employees employed during the year		180
Less: Contractual employees employed on 1.8.2018, since they do not participate in recognized provident fund and their total monthly emoluments exceed ₹ 25,000	48	
Regular employees employed on 1.6.2018, since their total monthly emoluments exceed ₹ 25,000	46	
Regular employees employed on 1.10.2018 since they have been employed for less than 240 days in the P.Y.2018-19.	<u>35</u>	<u>129</u>
Number of "additional employees"		<u>51</u>

Notes –

1. Since contractual employees do not participate in recognized provident fund, they do not qualify as additional employees. In any case, their total monthly emoluments exceed ₹ 25,000, and hence do not qualify as additional employees. Further, 46 regular employees employed on 1.6.2018 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 35 regular employees employed on 1.10.2018 do not qualify as additional employees for the P.Y.2018-19, since they are employed for less than 240 days in that year.

Therefore, only 51 employees employed on 1.4.2018 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2018-19 is deemed to be the additional employee cost.

2. As regards the 35 regular employees employed on 1.10.2018, they would be treated as "additional employee" for the P.Y. 2019-20, if they continue to be employed in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. Dheeraj for the A.Y. 2020-21.

(ii) Case 2: Where Mr. Dheeraj has commenced the business of manufacture of leather products on 1.4.2018

Yes, the answer would change, since in the case of an assessee engaged in the business of manufacture of leather products, the requirement of minimum period of employment of 240 days in the previous year to qualify as an additional employee for the purpose of deduction under section 80JJAA has been relaxed due to the seasonal nature of business of manufacture of apparel. The minimum period of employment required in case of this industry, to qualify as an additional employee for the purpose of deduction under section 80JJAA, is 150 days. Therefore, the 35 regular employees employed on 1.10.2018 would also qualify as “additional employees” and the deemed additional employee cost pertaining to these employees would also be eligible for deduction under section 80JJAA.

Deemed Additional Employee Cost = ₹ 1,40,76,000 (as calculated in (i) above) + ₹ 50,40,000 (35 employees × ₹ 24,000 × 6 months) = ₹ 1,91,16,000

Deduction under section 80JJAA = 30% × ₹ 1,91,16,000 = ₹ 57,34,800

4. As per section 80AC, while computing the total income of an assessee of a previous year (**P.Y.2018-19, in this case**) relevant to any assessment year (**A.Y.2019-20, in this case**), any deduction is admissible under section 80-IAB, such deduction shall not be allowed unless it furnishes a return of income for such assessment year on or before the ‘due date’ specified in section 139(1).

Since Satpura & Co. has undertaken international transactions and has to file a transfer pricing report, the ‘due date’ of filing its return of income for A.Y.2019-20 would be 30th November, 2019 as per section 139(1). Since it is the fifth year of operation, the firm is eligible for 100% deduction.

Computation of total income and tax liability of M/s. Satpura & Co. for A.Y.2019-20**I. Where the firm files its return of income on 30th November, 2019:**

Particulars	₹ in lacs
Gross Total Income	420.00
Less: Deduction under section 80-IAB	<u>330.00</u>
Total Income	<u>90.00</u>
Tax liability@ 30%	27.00
Add: Health and Education cess@4%	<u>1.08</u>
Regular income-tax payable	<u>28.08</u>
Computation of Alternate Minimum Tax payable [Section 115JC]	
Total Income	90.00
Add: Deduction under section 80-IAB	<u>330.00</u>
Adjusted Total Income	<u>420.00</u>

Alternate Minimum Tax (AMT) @ 18.5% on ₹ 420 lacs	77.70
Add: Surcharge@12% (Since adjusted total income > ₹ 1 crore)	<u>9.32</u>
	87.02
Add: Health and Education cess@4%	<u>3.48</u>
Total tax payable (AMT)	<u>90.50</u>

Since the regular income-tax payable by the firm is less than the alternate minimum tax payable, the adjusted total income of ₹ 420 lacs shall be deemed to be the total income of the firm for P.Y.2018-19 and it shall be liable to pay income-tax on such total income@18.5% [Section 115JC(1)]. Therefore, the tax payable for the A.Y.2019-20 would be ₹ 90.50 lacs.

Tax credit for Alternate Minimum Tax [Section 115JD]	₹ in lacs
Total tax payable for A.Y.2019-20 (Alternate Minimum Tax)	90.50
Less: Regular income-tax payable	<u>28.08</u>
To be carried forward for set-off against regular income-tax payable (upto a maximum of fifteen assessment years).	<u>62.42</u>

II. Where the firm files its return of income on 10th January, 2020:

Where the firm files its return on 10-01-2020, it would be a belated return under section 139(4). Consequently, as per section 80AC, deduction under section 80-IAB would not be available. In such circumstances, the gross total income of ₹ 420 lacs would be the total income of the firm.

Particulars	₹ in lacs
Income-tax@30% of ₹ 420 lacs	126.00
Add: Surcharge@12% (since total income exceeds ₹ 100 lacs)	<u>15.12</u>
Income-tax (plus surcharge)	141.12
Add: Health and Education cess@4%	<u>5.64</u>
Total tax liability	<u>146.76</u>

Practical solution regarding obtaining clarifications

The practical solution regarding obtaining clarifications would be to file the return of income under section 139(1) on or before the 'due date' i.e., 30.11.2019 and claim deduction under section 80-IAB. In such a case, the firm can claim deduction of ₹ 330 lacs under section 80-IAB. Thereafter, consequent to the clarifications obtained, if any change is required, it can file a revised return under section 139(5) upto 31.3.2020 (i.e., upto the end of A.Y.2019-20) which would replace the original return filed under section 139(1).

If the firm files the return of income under section 139(1) on or before 30.11.2019, its tax liability would stand reduced to ₹ 90.50 lacs, as against ₹ 146.76 lacs to be paid if return is furnished after due date. Further, it would also be eligible for tax credit for alternate minimum tax under section 115JD to the extent of ₹ 62.42 lacs. Therefore, the firm is advised to file its return of income on or before 30.11.2019.

Note: Students may note that a return furnished before the 'due date' specified in section 139(1) and a return filed under section 139(4) is eligible to be revised. However, there is no relaxation of conditions in section 80AC and hence to avail the benefits of certain deductions admissible under Chapter VI-A under the heading "C – Deductions in respect of certain incomes" the return has to be filed before the 'due date' specified in section 139(1).

5. The issue under consideration is whether dividend distribution tax under section 115-O can be levied on dividend income of a tea company, and if so, whether in whole or in part, to be restricted to 40%, being the proportion of business income of a tea company. This issue came up before the Supreme Court in *Union of India v. Tata Tea and Others* [2017] 398 ITR 260 (SC).

The Supreme Court observed that as per Entry 82 of List I, the Union Parliament has the competence to tax "income other than agricultural income". Section 115-O pertains to additional tax at the stage of distribution of dividend by a domestic company which is covered by Entry 82 in List I. When dividend is declared to be distributed and paid to a company's shareholders, it is not impressed with character of the source of its income. The Court relied on *Mrs. Bacha F Guzdar v. CIT AIR 1955 SC 74* which looked into the nature of the dividend income in the hands of the shareholders. Dividend is derived from the investment made in the company's shares and the foundation rests on the contractual relations between the company and the shareholder.

Dividend is not 'revenue derived from land' and therefore, cannot be termed as agricultural income in the hands of a shareholder. Hence, despite the company being involved in agricultural activities, in the shareholder's hands, the income is only dividend and not agricultural income.

The Calcutta High Court had upheld the vires of section 115-O but put a qualification that additional tax levied under section 115-O shall be only to the extent of 40% which is the taxable income of the tea company. The Supreme Court overturned this cap placed by the Calcutta High Court. Section 115-O is within the competence of the Parliament and hence, no limits can be placed on the same.

Accordingly, applying the rationale of the Supreme Court ruling to the facts of this case, the contention of the Appellate Authority that only 40% of dividend distributed by the company is to be taxed under section 115-O is **not** correct. The entire dividend distributed would be subject to dividend distribution tax under section 115-O.

6. Computation of total income of Rhombus(P) Ltd. for the A.Y. 2019-20

Particulars	₹	₹
Income from House Property (Note 1)		
Gross Annual Value (GAV) (Rental income has been taken as GAV in the absence of other information) [₹ 50,000 x 12]	6,00,000	
Less: Municipal taxes (not deductible since it has not been paid)	Nil	
Net Annual Value (NAV)	6,00,000	
Less: Deduction under section 24 (30% of NAV)	<u>1,80,000</u>	4,20,000
Profits and gains of business or profession		
Net profit as per profit and loss account	2,10,00,000	
Add: Licence fee for obtaining franchise (Note 2)	32,00,000	
Municipal taxes in respect of let-out part of office premises (Note 1)	8,000	
Contribution to approved and notified scientific research association (treated separately) (Note 4)	1,00,000	
Loss due to destruction of machinery by fire (Note 5)	2,00,000	
Amount paid to contractor without deduction of tax at source [₹ 5 lakhs x 30%] (Note 6)	1,50,000	
Short-term capital loss on sale of shares of Gama Ltd. (Note 7)	20,000	
Depreciation on tangible fixed assets (Note 8)	<u>2,20,000</u>	
	2,48,98,000	
Less: Depreciation under section 32 (Note 8)		
Tangible fixed assets (Note 8)	2,60,000	
Intangible asset (Franchise)		
25% of ₹ 32,00,000 (Note 2)	<u>8,00,000</u>	10,60,000
<u>Weighted deduction under section 35(1)(ii) (Note 4)</u>		
₹ 1,00,000 x 150% (Contribution of scientific research association)	1,50,000	
Rental income to be taxed under "Income from house property" (Note 1)	6,00,000	
Dividend credited to profit and loss account to be excluded (Note 7)	<u>10,000</u>	
		2,30,78,000

Capital Gains (Note 7)		
Short-term capital loss (₹ 20 x 1000 shares)		20,000
Less: Dividend exempt under section 10(34)		<u>10,000</u>
Short-term capital loss to be carried forward to A.Y. 2020-21		<u>10,000</u>
Income from Other Sources (Note 9)		
Deemed dividend under section 2(22)(e) subject to DDT in the hands of Theta (P) Ltd.		-
Total Income		<u>2,34,98,000</u>

Notes:

- (1) Rental income from letting out a part of the office premises is taxable under "Income from house property". Therefore, it has to be deducted while calculating business income, since the income has been credited to profit and loss account. Likewise, municipal taxes due in respect of such property, debited to profit and loss account has to be added back to compute business income.
- (2) Franchise is an intangible asset eligible for depreciation @ 25%. Since one-time licence fees of ₹ 32 lakh paid for obtaining franchise has been debited to profit and loss account, the same has to be added back. Depreciation @ 25% has to be provided in respect of the intangible asset since it has been used for more than 180 days during the year.
- (3) ₹ 32,000 paid to Beta & Co., a goods transport operator in cash is deductible while computing business income, as the limit for disallowance under section 40A(3) would be attracted in case of payment to a transport contractor only when it exceeds ₹ 35,000. Since it is already debited to profit and loss account, no further adjustment is required.
- (4) Contribution to a scientific research association approved and notified under section 35(1)(ii) is eligible for a weighted deduction of 150%. Therefore, the contribution of ₹ 1,00,000 debited to profit and loss account has been added back and ₹ 1,50,000 (being 150% of ₹ 1,00,000) has been deducted while computing business income.
- (5) Loss of ₹ 2 lakh due to destruction of machinery caused by fire is not deductible since it is capital in nature.
- (6) Payment to contractor without deduction of tax at source would attract disallowance at 30% of the expenditure under section 40(a)(ia).
- (7) As per section 94(7), where any person buys any shares within 3 months prior to the record date and sells such shares within 3 months after such date and the dividend received on such shares is exempt, then, the loss arising out of such purchase and sale of shares shall be ignored to the extent of dividend income.

	₹
Loss on sale of shares (₹ 100 - ₹ 80) x 1000 shares	20,000
Less: Dividend exempt under section 10(34)	<u>10,000</u>
Short-term capital loss	<u>10,000</u>

Since short term capital loss can be set-off only against income under the head "Capital Gains", the short-term capital loss of ₹ 10,000 has to be carried forward to the next year. Dividend of ₹ 10,000 credited to profit and loss account has to be deducted and short-term capital loss of ₹ 20,000 debited to profit and loss account has to be added back.

- (8) Depreciation as per Income-tax Rules, 1962, is deductible while calculating business income. Therefore, ₹ 2.60 lakh depreciation on tangible fixed assets and ₹ 8 lakh on intangible assets is deducted. The amount of ₹ 2.20 lakh depreciation debited to profit and loss account as per books of account has been added back.
- (9) As per section 2(22)(e), any payment by a company in which the public are not substantially interested by way of loan to a shareholder, who is the beneficial owner of shares holding not less than 10% of voting power, is deemed as dividend to the extent to which the company possesses accumulated profits. Accordingly, in this case, ₹ 50,000 would be deemed as dividend under section 2(22)(e) and subject to dividend distribution tax @30% (plus surcharge @12% and health and education cess @4%) in the hands of Theta (P) Ltd. Hence, such dividend is exempt in the hands of Rhombus (P) Ltd. under section 10(34).

7. Computation of total income of Edu All Charitable Trust for the A.Y.2019-20

Particulars	₹	₹
Gross receipts from Hospital		2,00,00,000
Gross receipts from Medical College [exempt, since less than ₹1 crore]		-
		<u>2,00,00,000</u>
Add: Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [See Note 1 & 2]		<u>3,00,000</u>
		2,03,00,000
Less: 15% of income eligible for being set apart without any condition ¹		<u>30,45,000</u>
		1,72,55,000

¹ As per the Supreme Court ruling in *CIT v. Programme for Community Organisation (2001) 116 Taxman 608*, 15% of gross receipts would be eligible for accumulation under section 11(1)(a). However, as per the plain reading of section 11(1)(a), only 15% of income would be eligible for accumulation under section 11(1)(a).

Less: Amount applied for charitable purposes		
- On revenue account – Administrative expenses	75,00,000	
- On capital account – Land & Building [Section 56(2)(x) is not attracted in respect of value of property received by a trust or institution registered u/s 12AA]	80,00,000	
- Corpus donation to Help Aid Trust registered u/s 12AA – not allowable even if it is out of current year income of the trust	-	1,55,00,000
Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]		17,55,000
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i) [See Note 1]		9,00,000
Total Income of the trust (including anonymous donation taxable@30%)		26,55,000

Computation of tax liability of the trust for the A.Y. 2019-20

Particulars	₹	₹
Tax on total income of ₹ 17,55,000 [Excluding anonymous donations]		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [₹2,50,000 x 5%]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [₹5,00,000 x 20%]	1,00,000	
> ₹ 10,00,000 [₹7,55,000 x 30%]	<u>2,26,500</u>	
	3,39,000	
Tax on anonymous donations taxable@30% [₹ 9,00,000 x 30%]	2,70,000	6,09,000
Add: Health and education cess @4%		24,360
Total tax liability		6,33,360

Notes:

- | | | |
|---|-------------|-------------|
| (1) Anonymous donations taxable @30% | ₹ | ₹ |
| Anonymous Donations received (lakhs) | | 12.00 |
| 5% of total donations received, i.e. 5% of 60 lakhs | 3.00 | |
| Monetary limit | <u>1.00</u> | |
| Higher of the above | | <u>3.00</u> |
| Anonymous donations taxable@30% | | <u>9.00</u> |
- (2)** The provisions of section 13(7) have been interpreted in a manner that it excludes only anonymous donations subject to tax@30% under section 115BBC(1)(i). All

taxable income of the trust [excluding anonymous donations taxable@30% u/s 115BBC(1)(i)] falls under section 115BBC(1)(ii), and are subject to tax at normal rates and eligible for benefit of unconditional accumulation u/s 11(1). Anonymous donation of ₹ 3,00,000 taxable at normal rates also falls under section 115BBC(1)(ii) and hence, like other taxable income of the trust falling within the scope of this clause, the same would also be eligible for the benefit of unconditional accumulation under section 11(1). The above solution has been worked out on the basis of this interpretation of section 13(7). Accordingly, in the above solution, the benefit of unconditional accumulation upto 15% under section 11(1) has been given in respect of anonymous donation of ₹ 3,00,000 subject to tax at normal rates.

However, an alternative view is also possible on the basis of the plain reading of section 13(7), as per which anonymous donation referred to in section 115BBC has to be excluded from the purview of exemption under sections 11 and 12. As per this view, even the anonymous donations of ₹ 3,00,000 subject to tax at normal rates would not be eligible for unconditional accumulation of upto 15%.

- (3) Corpus donations, whether received by way of cheque or cash, are not includible in the total income of the trust by virtue of section 11(1)(d).
 - (4) Since corpus donations and anonymous donations are indicated separately and the question does not mention that the same are included in gross receipts, the solution has been worked out on the assumption that corpus donations and anonymous donations are not included in the figure of gross receipts of ₹ 200 lakhs from hospital.
 - (5) Since the trust follows cash system of accounting, fees not realized from patients would not form part of gross receipts. Therefore, there is no need of applying the provisions of *Explanation 1* to section 11(1) to exclude such income.
 - (6) Where the cost of assets is claimed as application, no deduction for depreciation on such assets would be allowed in determining income for the purposes of application. Therefore, since cost of assets of the trust has been claimed as application of income, no depreciation would be allowed on these assets while determining income for the purposes of application.
8. Section 206C(1F) provides for collection of tax at source@1% by the seller from the buyer, at the time of receipt of consideration for sale of motor vehicle, the value of which exceeds ₹ 10 lakhs. CBDT Circular No.22/2016 dated 8.6.2016 clarifies that section 206C(1F) covers all transactions of retail sales and accordingly, it will not apply to sale of motor vehicles by manufacturers to dealers. Hence, car manufacturers are not liable to collect tax at source under section 206C(1F).

In respect of sale of premium cars (each of value ranging between ₹ 12 lakhs to ₹ 25 lakhs) by dealers to retail customers, tax has to be collected at source@1% under section 206C(1F), even if no part of the consideration is received in cash.

As regards small cars (each of value ranging between ₹ 5 lakhs and ₹ 9 lakhs), no tax has to be collected at source whether the consideration is received by way of cash or otherwise. Accordingly, the answer would not undergo a change if part of consideration is received in cash.

9. (i) As per the third proviso to section 147, the Assessing Officer may assess or reassess such income, other than the income involving matters which are the subject matters of any appeal, reference or revision, which is chargeable to tax and has escaped assessment.

Therefore, even when an appeal is pending before Commissioner (Appeals), the Assessing Officer can initiate reassessment proceedings in respect of income chargeable to tax which has escaped assessment, provided such income is not the subject matter of the appeal before the Commissioner (Appeals) i.e., such income which has escaped assessment does not form part of the additions of ₹22 lakhs to the returned income, which is the subject matter of appeal.

- (ii) As per section 154(1A), the Assessing Officer can pass an order under 154(1) to rectify a mistake apparent from the record, provided the rectification is in relation to a matter, other than the matter which has been considered and decided in the appeal before Commissioner (Appeals).

Since the issue under consideration in this case relates to rectification of a mistake in respect of a matter which is not the subject matter of appeal, the Assessing Officer can pass an order under section 154 for rectification of the same provided the same is a mistake apparent from the record.

- (iii) As per section 264(4), the Principal Commissioner or Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals).

Therefore, under section 264, the Principal Commissioner or Commissioner cannot revise an order which is pending before the Commissioner (Appeals), even if the revision pertains to a matter, other than the matter(s) covered in the appeal.

- (iv) As per section 263, the Commissioner has the power to revise an order prejudicial to the interests of revenue, even if the order is the subject matter of appeal before Commissioner (Appeals). However, the power of the Commissioner under section 263 shall extend to only such matters as had not been considered and decided in such appeal.

In a case where the appeal is pending but not yet decided, the Commissioner cannot exercise his revisionary jurisdiction in respect of those issues which are the subject matter of appeal [*CWT v. Sampathmal Chordia (2002) 256 ITR 440 (Mad.)*].

10. (i) The statement is **not** correct.

As per section 249(3) of the Income-tax Act, 1961, the Commissioner (Appeals) may admit an appeal after the expiry of the period of 30 days specified in section 249(2), if he is satisfied that the appellant had sufficient cause for not presenting the appeal within the prescribed time.

- (ii) The statement is **not** correct.

Section 254(2A) provides that the Appellate Tribunal, where it is possible, may hear and decide an appeal within a period of four years from the end of the financial year in which such appeal is filed.

The Appellate Tribunal may, on merit, pass an order of stay in any proceedings relating to an appeal. However, such period of stay cannot exceed 180 days from the date of such order. The Appellate Tribunal has to dispose of the appeal within this period of stay.

Where the appeal has not been disposed of within this period and the delay in disposing the appeal is not attributable to the assessee, the Appellate Tribunal can further extend the period of stay originally allowed. However, the aggregate of period originally allowed and the period so extended should not exceed 365 days even if the delay in disposing of the appeal is not attributable to the assessee. The Appellate Tribunal is required to dispose off the appeal within this extended period. If the appeal is not disposed of within such period or periods, the order of stay shall stand vacated after the expiry of such period or periods.

11. (i) As per section 245D(6B), the Settlement Commission may amend any order passed by it under section 245D(4) to rectify a mistake apparent from the record, within six months from the end of the month in which the order was passed. Where an application for rectification is made by the Principal Commissioner or Commissioner or the applicant within six months from the end of the month in which the order was passed, the Settlement Commission may amend its order within a period of six months from the end of the month in which such application has been made.

However, an amendment which has the effect of modifying the liability of the applicant shall not be made unless the Settlement Commission –

- (1) has given notice to the applicant and the Principal Commissioner or Commissioner of its intention to do so; and
- (2) has allowed the applicant and the Principal Commissioner or Commissioner an opportunity of being heard.

- (ii) The power of Settlement Commission to grant immunity from prosecution and penalty is provided for in section 245H.

In respect of an application made on or after 1st June, 2007, the Settlement Commission's power to grant immunity from prosecution is restricted to offences

under the Income-tax Act, 1961 and Wealth-tax Act, 1957. The Settlement Commission can also grant immunity from penalty imposed under the Income-tax Act, 1961. Such immunity from prosecution and penalty may be granted subject to conditions as it may think fit to impose.

However, the Settlement Commission may grant immunity only if the person who has made the application has co-operated with the Settlement Commission and made a full and true disclosure of his income and the manner in which it was derived. Further, the Settlement Commission while granting immunity to any person from prosecution shall record the reasons in writing in the order passed by it.

Also, the Settlement Commission cannot grant immunity if the prosecution proceeding for any such offence has been instituted before the date of receipt of application for settlement under section 245C.

12. This issue came up before the Supreme Court in *K. Lakshmansa and Co. v. Commissioner of Income-tax and Anr* [2017] 399 ITR 657. The Supreme Court observed that the right to claim refund is automatic once the statutory provisions have been complied with. The statutory obligation to refund, being non-discretionary, carries with it the right to interest. Section 244A is clear and plain – it grants a substantive right of interest and is not procedural.

Under section 244A, it is enough if the refund becomes due under the Income-tax Act, 1961, in which case, the assessee shall, subject to the provisions of that section, be entitled to receive simple interest. The expression “due” only means that a refund becomes due pursuant to an order under the Act which either reduces or waives tax or interest. It does not matter that the interest being waived is discretionary in nature; the moment that discretion is exercised and refund becomes due consequently, a concomitant right to claim interest springs into being in favour of the assessee.

The Supreme Court, thus, did not agree with the Karnataka High Court opinion that when discretionary power has been exercised, no concomitant right to claim interest on refund arises in favour of the assessee. Overruling the High Court Decision, the Supreme Court held that the assessee has a right to interest on refund under section 244A.

Applying the rationale of the Supreme Court ruling to the case on hand, the action of the Settlement Commission in refusing to grant interest on refund is **not** correct.

13. (i) **Where Xylo Inc., a US company, does not have a PE in India**

In this case, Xylo Inc. would be eligible for a concessional rate of tax@10% of ₹ 2 crore under section 115A on the fees for technical services received from Alpha Ltd., an Indian company, since the same is in pursuance of an agreement entered into after 31.3.1976, which has been approved by the Central Government. No deduction, however, would be allowed in respect of expenditure of ₹ 8 lakhs incurred to earn such income. Also, Xylo Inc. has to file its return of income in India under section 139 and there is no exemption in this regard.

(ii) **Where Xylo Inc., a US company, has a PE in India and rendering technical services is effectively connected with the PE in India.**

Since Xylo Inc. carries on business through a PE in India, in pursuance of an agreement with Alpha Ltd. or other Indian companies entered into after 31.3.2003, and the income by way of fees for technical services is effectively connected with the PE in India as per section 44DA, such income shall be computed under the head "Profits and gains of business or profession" in accordance with the provisions of the Income-tax Act, 1961.

Accordingly, expenses of ₹ 23 lakhs (₹ 8 lakhs + ₹ 15 lakhs) incurred for earning fees for technical services of ₹ 6 crore (₹ 2 crore + ₹ 4 crore) is allowable as deduction therefrom. However, expenditure of ₹ 6 lakhs which is not incurred wholly and exclusively for the business of the PE and the amount of ₹ 12 lakhs paid by the PE to the Head Office is **not** allowable as deduction.

Xylo Inc. is required to maintain books of account under section 44AA and get the same audited under section 44AB and furnish report along with the return of income under section 139.

14. **Computation of total income of Mr. Hari for A.Y.2019-20**

Particulars	₹	₹
Income from House Property [House situated in Country Q]		
Gross Annual Value ²	3,30,000	
Less: Municipal taxes paid in Country Q	<u>10,000</u>	
Net Annual Value	3,20,000	
Less: Deduction under section 24 – 30% of NAV	<u>96,000</u>	
		2,24,000
Profits and Gains of Business or Profession		
Income from business carried on in India		4,40,000
Income from Other Sources		
Interest on savings bank with HDFC Bank	42,000	
Agricultural income in Country P [Not exempt]	94,000	
Dividend received from a company in Country Q	2,65,000	
Royalty income from a book of art in Country P (after deducting expenses of ₹ 50,000)	<u>7,30,000</u>	
		<u>11,31,000</u>
Gross Total Income		17,95,000

² Rental income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

Less: Deduction under Chapter VIA		
Under section 80QQB – Royalty income of a resident from a work of art ³		3,00,000
Under section 80TTA – Interest on savings bank account, subject to a maximum of ₹10,000.		<u>10,000</u>
Total Income		14,85,000

Note – Since adjusted total income (i.e., ₹ 17,95,000) does not exceed ₹ 20 lakhs, AMT would not be attracted in this case.

Computation of tax liability of Mr. Hari for A.Y.2019-20

Particulars	₹
Tax on total income [30% of ₹ 4,85,000 + ₹ 1,12,500]	2,58,000
Add: Health and education cess @4%	<u>10,320</u>
	2,68,320
Less: Rebate under section 91 (See Working Note below)	<u>1,72,197</u>
Tax Payable	96,123
Tax payable (rounded off)	96,120

Calculation of Rebate under section 91:		₹
Average rate of tax in India [i.e., ₹ 2,68,320 / ₹ 14,85,000 x 100]	18.069%	
Average rate of tax in country P	16%	
Doubly taxed income pertaining to country P⁴	₹	
Agricultural Income	94,000	
Royalty Income [₹ 7,80,000 – ₹ 50,000 (Expenses) – ₹ 3,00,000 (deduction under section 80QQB)]	4,30,000	
	5,24,000	
Rebate under section 91 on ₹ 5,24,000 @16% [being the lower of average Indian tax rate (18.069%) and foreign tax rate (16%)]		83,840

³ It is assumed that the royalty earned outside India has been brought into India in convertible foreign exchange within a period of six months from the end of the previous year.

⁴ Doubly taxed income includes only that part of income which is included in the assessee's total income. The amount deducted under Chapter VIA is not doubly taxed and hence, no relief is allowable in respect of such amount – *CIT v. Dr. R.N. Jhanji (1990) 185 ITR 586 (Raj.)*.

Average rate of tax in country Q	20%	
Doubly taxed income pertaining to country Q		
Income from house property	2,24,000	
Dividend	<u>2,65,000</u>	
	<u>4,89,000</u>	
Rebate under section 91 on ₹ 4,89,000 @18.069% (being the lower of average Indian tax rate (18.069%) and foreign tax rate (20%)]		<u>88,357</u>
Total rebate under section 91 (Country A + Country B)		<u>1,72,197</u>

Note: Mr. Hari shall be allowed deduction under section 91, since the following conditions are fulfilled:-

- (a) He is a resident in India during the relevant previous year i.e., P.Y.2018-19.
 - (b) The income in question accrues or arises to him outside India in foreign countries P & Q during that previous year and such income is not deemed to accrue or arise in India during the previous year.
 - (c) The income in question has been subjected to income-tax in the foreign countries "P" and "Q" in his hands and it is presumed that he has paid tax on such income in those countries.
 - (d) There is no agreement under section 90 for the relief or avoidance of double taxation between India and Countries P and Q where the income has accrued or arisen.
15. (i) Provision of scientific research services falls within the scope of international transaction under section 92B. Research & Co. and B Inc. are deemed to be associated enterprises as per section 92A(2), since B Inc. guarantees not less than 10% of the total borrowings of Research & Co. Since there is an international transaction between associated enterprises, transfer pricing provisions are attracted in this case.
- (ii) Where the Assessing Officer has made a primary adjustment of ₹ 225 lakhs to the transfer price and the same has been accepted by Research & Co., secondary adjustment has to be made in the books of account. The excess money determined based on the primary adjustment has to be repatriated to India within 90 days from the date of order, failing which the same would be deemed as an advance and interest would be attracted at the one year marginal cost of fund lending rate of State Bank of India as on 1.4.2018 + 3.25%, since the international transaction has been denominated in Indian Rupees. In this case, since the excess money has not been repatriated within 90 days, the same would be deemed to be an advance made by Research & Co. to B Inc. and interest would be attracted @11.40% (8.15% + 3.25%).
16. If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise (AE) and such

interest exceeds ₹ 1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

Further, where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since M/s Tweed Inc holds 40% of voting power i.e., more than 26% of voting power in both Narmada Ltd and M/s Tyne Inc, Narmada Ltd. and M/s Tyne Inc are deemed to be associated enterprises.

Since loan of ₹ 80 crores taken by Narmada Ltd., an Indian company from M/s Thames Inc, is guaranteed by M/s Tyne Inc, an associated enterprise of Narmada Ltd., such debt shall be deemed to have been issued by an associated enterprise and interest payable to M/s Thames Inc shall be considered for the purpose of limitation of interest deduction under section 94B.

Computation of interest to be disallowed as per section 94B in the computation of income under the head profits and gains of business or profession of M/s.Narmada Ltd.

Particulars	₹
Net profit	7,00,00,000
Add: Interest already debited (₹ 80 crores x 10%)	8,00,00,000
Depreciation	4,00,00,000
Income tax	<u>3,00,00,000</u>
EBITDA	<u>22,00,00,000</u>
Interest paid or payable by Narmada Ltd.	8,00,00,000
Lower of the following would be disallowed	
- Total interest paid or payable in excess of 30% of EBITDA (₹ 8,00,00,000 – ₹ 6,60,00,000)	₹ 1,40,00,000
- Interest paid or payable to non-resident AE	₹ 8,00,00,000
Interest to be disallowed as deduction	1,40,00,000

PAPER – 8 : INDIRECT TAX LAWS

QUESTIONS

- (1) All questions should be answered on the basis of the position of GST law as amended up to 31.10.2018 and customs law as amended by the Finance Act, 2018 and notifications and circulars issued till 31.10.2018.
- (2) Questions 1 to 10 are MCQs having one correct answer among the four alternatives. MCQs 1 to 7 have to be answered on the basis of GST law and MCQs 8 to 10 on the basis of customs law.
- (3) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. The rates of customs duty are also hypothetical and may not necessarily be the actual rates. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1. M/s. Aircool Ltd., a supplier of air conditioners, is registered in the State of Maharashtra. It has a policy to gift an air conditioner to its employees [residing in Gujarat] at the end of financial year in terms of the employment contract. The company installs such air conditioners at the residence of the employees.
- During the month of March, 20XX, the company installed 150 air conditioners at the residence of these employees. The total open market value of such air conditioners is ₹ 52.50 lakh (excluding GST). The tax rate on such air conditioners is 28% (14% CGST, 14% SGST and 28% IGST).
- Compute the GST liability of M/s. Aircool Ltd., if any.
- (a) ₹ 7,35,000 - CGST, ₹ 7,35,000- SGST
(b) ₹ 14,70,000 - IGST
(c) Nil
(d) None of the above
2. Mr. James Bond is a registered person under GST in the State of Maharashtra who sells footwear to his customers locally within the same State. He has been appointed as an agent by M/s. Toto Shoes Ltd., a company registered under GST in the State of Karnataka. During a financial year, M/s. Toto Shoes Ltd., sends taxable goods worth ₹ 5.00 crore from its Bengaluru store to Mr. James Bond who sells such goods for ₹ 5.00 crore by raising invoices using the GSTIN of M/s. Toto Shoes Ltd. Mr. James Bond receives a commission of ₹ 60.00 lakh from M/s. Toto Shoes (P) Ltd., during the said financial year.

Compute the value of supply of Toto Shoes (P) Ltd. and Mr. James Bond for the financial year.

- (a) M/s. Toto Shoes (P) Ltd.: Nil and James Bond: ₹ 5.6 crore
 - (b) M/s. Toto Shoes (P) Ltd.: ₹ 5 crore and James Bond: ₹ 5.6 crore
 - (c) M/s. Toto Shoes (P) Ltd.: ₹ 5 crore and James Bond: ₹ 60 lakh
 - (d) None of the above
3. M/s. Wanderlust Travels (P) Ltd. purchased a bus chassis from M/s. Krishi Motors Ltd. for a consideration of ₹ 90.00 lakh on 01.10.20XX. M/s. Wanderlust Travels (P) Ltd. sent the bus chassis for body building to M/s. Bhagwant Fabricators and paid in advance the total consideration of ₹ 25.00 lakh on 15.10.20XX. M/s. Bhagwant Fabricators, after completing the bus body, informed M/s. Wanderlust Travels (P) Ltd. for carrying out the inspection of the work done on 05.11.20XX. M/s. Wanderlust Travels (P) Ltd. visited the work shop of M/s. Bhagwant Fabricators on 08.11.20XX and confirmed that the bus body was in accordance with the terms of the contract.
- The last date for issuing the invoice by M/s. Bhagwant Fabricators is:-
- (a) 15.10.20XX
 - (b) 08.11.20XX
 - (c) 08.12.20XX
 - (d) 05.12.20XX
4. Which of the following statements are true with respect to accounts and records?
- (1) All accounts and records are to be retained for 6 years.
 - (2) Stock record is to be maintained by all registered dealers except the dealers registered under composition scheme.
 - (3) Stock record is to be maintained by all registered dealers including composition dealers.
 - (4) Monthly production records are to be maintained by all dealers except the dealers who have taken option for composition.
 - (5) Monthly production records are to be maintained by all dealers including composition dealers.
 - (6) Records are to be maintained at principal place of business.
- (a) 1, 2, 5, 6

- (b) 1, 3, 5
(c) 1, 3, 4
(d) 1, 2, 4, 6
5. Which among the following cannot be a reason for cancellation of registration?
- (a) There is a change in the constitution of business from partnership firm to proprietorship.
(b) The business has been discontinued.
(c) A composition taxpayer has not furnished returns for three consecutive tax periods.
(d) A registered person, other than composition taxpayer, has not furnished returns for three consecutive tax periods.
6. Which of the following persons can opt for the composition scheme?
- (1) Registered person whose aggregate turnover in the preceding financial year did not exceed ₹ 75 lakh.
(2) Registered person whose aggregate turnover in the preceding financial year did not exceed ₹ 1 crore.
(3) A person engaged in business of pan masala, tobacco and manufactured tobacco substitutes.
(4) A person engaged in the business of ice cream, other edible ice, whether or not containing cocoa.
(5) A person engaged exclusively in providing restaurant service.
(6) A person engaged exclusively in supply of medicines.
- (a) 1, 2, 3, 5
(b) 1, 2, 5, 6
(c) 2, 3, 4, 5
(d) 3, 4, 5, 6
7. Mr. Topinath, an unregistered person in Delhi, who has an aggregate turnover of ₹ 16 lakh sells mobile phones to Mr. Gopinath, a person registered under GST in Uttar Pradesh. Whether any penalty is leviable on Mr. Topinath, for such supply and if yes, what is the maximum amount of penalty that can be levied on Mr. Topinath:-

- (a) No penalty since there is no default on part of Mr. Topinath as his turnover is below threshold limit.
 - (b) Yes; an amount equivalent to the tax evaded or ₹ 10,000/-, whichever is lower.
 - (c) Yes; an amount equivalent to the turnover or ₹ 10,000/-, whichever is higher.
 - (d) Yes; an amount equivalent to the tax evaded or ₹ 10,000/-, whichever is higher.
8. Which of the following statements is/are correct for 'similar goods' for valuation purposes under the Customs Act, 1962?
- (i) Similar goods although not alike in all respects, have like characteristics and like component materials which enable them to perform the same functions and to be commercially interchangeable with the goods being valued having regard to the quality, reputation and the existence of trade mark.
 - (ii) Similar goods are necessarily produced in the country in which goods being valued were produced.
 - (iii) Similar goods are necessarily produced by the same person who produced the goods being valued.
- (a) (i) and (ii)
 - (b) Only (i)
 - (c) (i) and (iii)
 - (d) All of above
9. Which of the following statements is/are correct for safeguard duty under section 8B of the Customs Tariff Act, 1975?
- (i) Safeguard duty is imposed on articles which are imported in increased quantities.
 - (ii) Such increased importation is causing or threatening to cause serious injury to domestic market.
 - (iii) Safeguard duty can be imposed for a period of 4 years and the period of imposition can be extended. However, in no case the safeguard duty shall continue to be imposed beyond a period of 10 years from the date on which it was first imposed.
 - (iv) Safeguard duty can be imposed provisionally also pending final determination of duty.
- (a) (i), (ii) and (iii)
 - (b) Only (i) and (iv)

- (c) None of above
- (d) All of above
10. Which of the following statements is not correct for pilfered goods under section 13 of the Customs Act, 1962?
- (a) The importer is not required to pay duty on imported goods which are pilfered after unloading but before being cleared for home consumption.
- (b) The importer is not required to pay duty on warehoused goods which are pilfered before being cleared for home consumption.
- (c) The onus to prove the pilferage does not lie on the importer.
- (d) If pilfered goods are restored to the importer, he becomes liable to pay duty.
11. XYZ Pvt. Ltd. is a manufacturing company registered under GST in the State of Uttar Pradesh. It manufactures two taxable products 'Alpha' and 'Beta' and one exempt product 'Gama'. On 1st October 20XX, while product 'Beta' got exempted through an exemption notification, exemption available on 'Gama' got withdrawn on the same date. The turnover (exclusive of taxes) of 'Alpha', 'Beta' and 'Gama' in the month of October, 20XX was ₹ 9,00,000, ₹ 10,00,000 and ₹ 6,00,000.

XYZ Pvt. Ltd. has furnished the following details:

S. No.	Particulars	Price (₹)	GST (₹)
(a)	Machinery 'U' purchased on 01.10.20XX for being used in manufacturing all the three products	2,00,000	36,000
(b)	Machinery 'V' purchased on 01.10.20XX for being used in manufacturing product 'Alpha' and 'Gama'	1,00,000	18,000
(c)	Machinery 'W' purchased on 01.10.20XX for being exclusively used in manufacturing product 'Beta'	3,00,000	54,000
(d)	Machinery 'X' purchased on October 1, three years before 01.10.20XX for being exclusively used in manufacturing product 'Gama'. From 01.10.20XX, such machinery will also be used for manufacturing product 'Beta'.	5,00,000	90,000
(e)	Machinery 'Y' purchased on October 1, four years before 01.10.20XX for being exclusively used in manufacturing product 'Beta'. From 01.10.20XX, such machinery will also be used for manufacturing product 'Gama'.	4,00,000	72,000

(f)	Machinery 'Z' purchased on October 1, two years before 01.10.20XX for being used in manufacturing all the three products	3,00,000	54,000
(g)	Raw Material used for manufacturing 'Alpha' purchased on 05.10.20XX	1,50,000	27,000
(h)	Raw Material used for manufacturing 'Beta' purchased on 10.10.20XX	2,00,000	36,000
(i)	Raw Material used for manufacturing 'Gama' purchased on 15.10.20XX	1,00,000	18,000

Compute the following for the month of October, 20XX:

- (i) Amount of input tax credit (ITC) credited to Electronic Credit Ledger
- (ii) Amount of common credit
- (iii) Common credit attributable to exempt supplies
- (iv) GST liability of the company payable through Electronic Cash Ledger

Note: Assume that all the procurements made by the company are from States other than Uttar Pradesh. Similarly, the company sells all its products in States other than Uttar Pradesh. Rate of IGST is 18%. All the conditions necessary for availing the ITC have been complied with. Ignore interest, if any and make suitable assumptions wherever required.

12. B & D Company, a partnership firm, in Nagpur, Maharashtra is a wholesaler of a taxable product 'P' and an exempt product 'Q'. The firm supplies these products only in the eastern part of Maharashtra. All the procurements (both goods and services) of the firm are from the suppliers registered under regular scheme in the State of Maharashtra. The firm pays tax under composition scheme.

B & D Company has furnished the following details with respect to its turnover (exclusive of taxes) and stock (exclusive of taxes):

Particulars	Turnover for the quarter ended 30.06.20XX (₹)	Turnover for the quarter ended 30.09.20XX (₹)
'P'	40,00,000	30,00,000
'Q'	14,65,000	13,00,000

Particulars	Stock as on 30.06.20XX (₹)	Stock as on 30.09.20XX (₹)	Stock as on 31.10.20XX (₹)
'P'	25,00,000	10,00,000	3,60,000
'Q'	10,00,000	2,00,000	1,20,000

The entire stock of the products 'P' and 'Q' available with the firm as on 30.09.20XX is purchased during the said half year except a consignment of product 'P' valuing ₹ 3,00,000, which was purchased in the April month of the preceding financial year. In the month of October, 20XX, no purchases were made, and the products were sold with a profit margin of 20% on sales [exclusive of taxes].

The extract of the only bill book maintained by the firm showed the following details-

Bill No.	Date	Value of products (exclusive of taxes)		
		'P' (₹)	'Q' (₹)	Total (₹)
2306	01.10.20XX	1,00,000	3,000	1,03,000
2307	01.10.20XX	31,250	2,000	33,250
2308	02.10.20XX	43,750	15,000	58,750
2309	03.10.20XX	35,000	10,000	45,000
2310	05.10.20XX	1,00,000	-	1,00,000
2311	06.10.20XX	94,000	6,000	1,00,000
2312	06.10.20XX	-	17,000	17,000
2313	08.10.20XX	50,000	6,000	56,000
2314	09.10.20XX	60,000	9,000	69,000
2315
.....

The details of services availed by B & D Company is as follows:

S. No.	Particulars	(₹)
(i)	Freight paid to Goods Transport Agency during the period April 20XX – October 20XX. Assume equal amount of freight is paid each month on the 10 th day of each month. Also, assume that the goods for which the freight is paid on 10 th day of the month are transported between 11 th to 20 th day of the month.	1,40,000
(ii)	Special packing charges paid to a Packing Company, having expertise in such specialized packing, during the period January 20XX – October 20XX. The packing charges are paid for the goods which are transported between 11 th to 20 th day of the month (as mentioned in point (i) above). The goods are packed on 10 th day and then transported from 11 th day onwards. Assume equal amount of packing charges are paid each month on the 9 th day of each month.	3,00,000

All the above amounts are exclusive of taxes, wherever applicable.

Compute the net GST liability of B & D Company for the period April, 20XX to October, 20XX under composition scheme showing calculations for each quarter separately.

Note: Make suitable assumptions wherever required. Rate of CGST and SGST on service of transportation of goods by GTA is 2.5% each. Stock is valued at cost price.

13. Keeping all the facts and figures of Q.12 unchanged, compute the ITC credited to the Electronic Credit Ledger of the B & D Company, when it exits composition scheme and becomes liable to pay tax under regular scheme, in accordance with the provisions of section 18(1)(c) of the CGST Act, 2017.

Following additional information is also available:

Particulars relating to capital goods owned by the firm	Date of purchase	Value (₹)	GST (₹)
Computers	01.02.20XX	2,00,000	36,000
Printers	January 1, two years prior to 01.01.20XX	80,000	14,400
Motor cycle used by the staff for collecting payments from the debtors	23.09.20XX	85,000	15,300
Furniture & fixtures	12.06.20XX	4,00,000	72,000
Air conditioner used in the office	15.10.20XX	2,00,000	36,000
Exhaust fan used in the godown	10.03.20XX	50,000	9,000

Note: The company has not claimed depreciation on the tax component of any of the capital goods (mentioned above) under the Income-tax Act, 1961. All the conditions necessary for availing the ITC have been complied with. Rate of CGST and SGST is 9% each.

14. Keeping all the facts and figures of Q.12 and Q.13 unchanged, compute the GST liability of B & D Company payable from Electronic Credit Ledger and/or Electronic Cash Ledger, as the case may be, for the period covered under regular scheme.
15. Musicera Pvt. Ltd., owned by Nitish Daani - a famous classical singer - wishes to organise a 'Nitish Daani Music Concert' in Gurugram (Haryana). Musicera Pvt. Ltd. (registered in Ludhiana, Punjab) enters into a contract with an event management company, Supriya (P) Ltd. (registered in Delhi) for organising the said music concert at an agreed consideration of ₹ 10,00,000. Supriya (P) Ltd. books the lawns of Hotel Dumdum, Gurugram (registered in Haryana) for holding the music concert, for a lump sum consideration of ₹ 4,00,000. Musicera Pvt. Ltd. fixes the entry fee to the music concert at ₹ 5,000. 400 tickets for 'Nitish Daani Music Concert' are sold.

You are required to determine the CGST and SGST or IGST liability, as the case may be, in respect of the supplie(s) involved in the given scenario.

Will your answer be different if the price per ticket is fixed at ₹ 450?

Note: Rate of CGST and SGST is 9% each and IGST is 18%. All the amounts given above are exclusive of taxes, wherever applicable.

16. With reference to the provisions relating to the electronic way bill (E-way bill) as prescribed under the GST laws, answer the following questions:

(i) Sindhi Toys Manufacturers, registered in Punjab, sold electronic toys to a retail seller in Gujarat, at a value of ₹ 48,000 (excluding GST leviable @ 18%). Now, it wants to send the consignment of such toys to the retail seller in Gujarat.

You are required to advise Sindhi Toys Manufacturers on the following issues:

(a) Whether e-way bill is mandatorily required to be generated in respect of such movement of goods?

(b) If yes, who is required to generate the e-way bill?

(c) What will be the consequences for non-issuance of e-way bill?

(ii) Power Electricals Ltd., a registered supplier of air-conditioners, is required to send from Mumbai (Maharashtra), a consignment of parts of air-conditioner to be replaced under warranty at various client locations in Gujarat. The value of consignment declared in delivery challan accompanying the goods is ₹ 70,000. Power Electricals Ltd. claims that since movement of goods to Gujarat is caused due to reasons other than supply, e-way bill is not mandatorily required to be generated in this case.

You are required to examine the technical veracity of the claim made by Power Electricals Ltd.

(iii) Beauty Cosmetics Ltd. has multiple wholesale outlets of cosmetic products in Mumbai, Maharashtra. It receives an order for cosmetics worth ₹ 1,20,000 (inclusive of GST leviable @ 18%) from Prasanna, owner of a retail cosmetic store in Delhi. While checking the stock, it is found that order worth ₹ 55,000 can be fulfilled from the company's Dadar (Mumbai) store and remaining goods worth ₹ 65,000 can be sent from its Malad (Mumbai) store. Both the stores are instructed to issue separate invoices for the goods sent to Prasanna. The goods are transported to Prasanna in Delhi, in a single conveyance owned by Radhey Transporters.

You are required to advise Beauty Cosmetics Ltd. with regard to issuance of e-way bill(s).

17. Manihar Enterprises, registered in Delhi, is engaged in supply of various goods and services exclusively to Government departments, agencies etc. and persons notified under section 51 of the CGST Act, 2017. It has provided the information relating to the supplies made, their contract values and the payment due against each of them in the month of October, 20XX as under:

S.No.	Particulars	Total contract value (inclusive of GST) (₹)	Payment due in October, 20XX (₹)
(i)	Supply of stationery to Fisheries Department, Kolkata	2,60,000	15,000
(ii)	Supply of car rental services to Municipal Corporation of Delhi	2,95,000	20,000
(iii)	Supply of a heavy machinery to Public Sector Undertaking located in Uttarakhand	5,90,000	25,000
(iv)	Supply of taxable goods to Delhi office of National Housing Bank, a society established by Government of India under the Societies Registration Act, 1860	6,49,000	50,000
(v)	Interior decoration of Andhra Bhawan located in Delhi. Service contract is entered into with the Government of Andhra Pradesh (registered only in Andhra Pradesh)	12,39,000	12,39,000
(vi)	Supply of printed books and printed post cards to a West Delhi Post Office [Out of total contract value of ₹ 9,72,000, contract value for supply of books (exempt from GST) is ₹ 7,00,000 and for supply of printed post cards (taxable under GST) is ₹ 2,72,000.]	9,72,000	50,000 for books & 20,000 for printed post cards
(vii)	Maintenance of street lights in Municipal area of East Delhi* [The maintenance contract entered into with the Municipal Corporation of Delhi also involves replacement of defunct lights and other spares. However, the value of supply of goods is not more than 25% of the value of composite supply.] *an activity in relation to any function entrusted to a Municipality under article 243W of the Constitution	3,50,000	3,50,000

You are required to determine amount of tax, if any, to be deducted from each of the receivable given above assuming the rate of CGST, SGST and IGST as 9%, 9% and 18% respectively.

Will your answer be different, if Manihar Enterprises is registered under composition scheme?

18. Kailash Global (P) Ltd. supplies various goods in domestic and international markets. It is engaged in both manufacturing and trading of goods. The company is registered under GST in the State of Karnataka. The company exports goods without payment of tax under letter of undertaking in accordance with the provisions of section 16(3)(a) of the IGST Act, 2017.

The company has made the following supplies during a tax period:

S. No.	Particulars	(₹)
(i)	Export of product 'A' to UK for \$ 10,000. Assessable value under customs in Indian rupees. [Export duty is levied on product 'A' at the time of exports]	7,00,000
(ii)	Domestic supplies of taxable product 'B'* during the period [excluding tax @ 5%] [Inputs used in manufacturing of such goods are taxable @18%] <i>*not notified as a product, in respect of which refund of unutilised ITC shall not be allowed under section 54(3)(ii) of the CGST Act, 2017</i>	10,00,000
(iii)	Supply of goods to Export Oriented Unit [excluding tax @ 18%] [ITC has been claimed by the recipient]	5,00,000
(iv)	Export of exempt supplies of goods	6,00,000

The ITC available for the above tax period is as follows:

S. No.	Particulars	(₹)
(i)	On inputs (including ₹ 50,000 on export of exempt supplies)	3,50,000
(ii)	On capital goods	1,20,000
(iii)	On input services (including ₹ 18,000 on outdoor catering)	2,00,000

Determine the maximum amount of refund admissible to Kailash Global (P) Ltd. for the given tax period.

19. Enlist the circumstances for which a show cause notice can be issued by the proper officer under section 73 of the CGST Act, 2017. Specify the time limit for issuance of

such show cause notice as also the time period for issuance of order by the proper officer under section 73.

20. With reference to the provisions of section 121 of the CGST Act, 2017, specify the orders against which no appeals can be filed.
21. Explain the provisions of section 39(9) of the CGST Act, 2017 with reference to rectification of returns.
22. Sphinx Merchandise Ltd. has exported some goods to USA by air. The FOB price of goods exported is US \$ 1,00,000.

Compute the export duty payable by Sphinx Merchandise Ltd. with the help of following details provided.

Particulars	Date	Rate of duty	Rate of exchange notified by CBIC	Rate of exchange prescribed by RBI
Presentation of shipping bill	17.06.20XX	12%	1 US \$ = 65	1 US \$ = 64
Let export order	19.07.20XX	10%	1 US \$ = 64	1 US \$ = 65

23. (i) With reference to section 70 of the Customs Act, 1962, briefly discuss the conditions to be satisfied for remission of duty in case of volatile goods.
(ii) Enumerate the goods specified as volatile for the purposes of remission of duty under the provisions of Customs Act, 1962.
24. Explain rule 3 of the General Rules for the Interpretation of the Import Tariff.
25. (i) A star export house wishes to import goods which are exempt from duty under Foreign Trade Policy (FTP), subject to fulfilment of export obligation. However, Customs Notification giving effect to the FTP is yet to be issued. Can the export house import the goods claiming exemption from duty under FTP in the absence of Customs Notification?
(ii) Give examples of categories of exports/sectors which are ineligible for duty credit scrip entitlement under MEIS.

SUGGESTED ANSWERS

- | | | | | | | | | | |
|----|-----|----|-----|----|-----|----|-----|-----|-----|
| 1. | (c) | 2. | (c) | 3. | (c) | 4. | (a) | 5. | (d) |
| 6. | (b) | 7. | (d) | 8. | (a) | 9. | (d) | 10. | (b) |

11.

S. No.	Particulars	ITC (₹)
(i)	Computation of amount of ITC credited to Electronic Credit Ledger, for the month of October, 20XX	
(a)	Machinery 'U' - 'A' [Note 1]	36,000
(b)	Machinery 'V' [Note 2]	18,000
(c)	Machinery 'W' [Note 3]	-
(d)	Machinery 'X' - [Note 4]	36,000
(e)	Machinery 'Y' [Note 5]	-
(f)	Machinery 'Z' [Note 6]	-
(g)	Raw Material used for manufacturing 'Alpha' [Note 7]	27,000
(h)	Raw Material used for manufacturing 'Beta' [Note 7]	-
(i)	Raw Material used for manufacturing 'Gama' [Note 7]	<u>18,000</u>
	ITC credited to Electronic Credit Ledger, for the month of October, 20XX	1,35,000
(ii)	Computation of common credit for the month of October, 20XX	
(a)	Value of 'A' for Machinery 'U' purchased on 01.10.20XX	36,000
(b)	Value of 'A' for Machinery 'X' purchased 3 years before 01.10.20XX and used for effecting both taxable and exempt supplies from 01.10.20XX	36,000
(c)	Value of 'A' for Machinery 'Y' purchased 4 years before 01.10.20XX and used for effecting both taxable and exempt supplies from 01.10.20XX [Note 8]	14,400
	Total common credit for the month of October, 20XX – T_c [Note 9]	86,400
(iii)	Computation of common credit attributable to exempt supplies, for the month of October, 20XX	
(a)	ITC attributable to a month on common capital goods during their useful life – T _m [Note 10]	1,440
(b)	ITC at the beginning of October, 20XX on all common capital goods whose useful life remains during the tax period - T _r [Note 11]	2,340

(c)	Common credit attributable to exempt supplies, for the month of October 20XX – T_e $= T_r \times \frac{\text{Turnover of exempt supplies during October 20XX}}{\text{Total turnover of XYZ Pvt. Ltd. during October 20XX}}$ $= 2,340 \times \frac{10,00,000}{25,00,000}$	936
(iv)	Computation of GST liability of the company for October 20XX payable through Electronic Cash Ledger	
	IGST payable on 'Alpha' [₹ 9,00,000 x 18%]	1,62,000
	IGST payable on 'Beta' [Exempt]	Nil
	IGST payable on 'Gama' [₹ 6,00,000 x 18%]	<u>1,08,000</u>
	Total IGST payable on outward supply	2,70,000
	Common credit attributable to exempt supplies for the month of October, 20XX [Note 12]	<u>936</u>
	Total output tax liability of October, 20XX	2,70,936
	Less: ITC available in the Electronic Credit Ledger	<u>1,35,000</u>
	IGST payable from Electronic Cash Ledger	1,35,936

Notes:

- (1) ITC in respect of capital goods used commonly for effecting taxable supplies and exempt supplies denoted as 'A' shall be credited to the electronic credit ledger [Rule 43(1)(c) of the CGST Rules, 2017].
- (2) ITC in respect of capital goods used or intended to be used exclusively for effecting supplies other than exempted supplies but including zero rated supplies shall be credited to the electronic credit ledger [Rule 43(1)(b) of the CGST Rules, 2017].
- (3) ITC in respect of capital goods used or intended to be used exclusively for effecting exempt supplies shall not be credited to electronic credit ledger [Rule 43(1)(a) of the CGST Rules, 2017].
- (4) Where any capital goods earlier used exclusively for effecting exempt supplies is subsequently **also** used for effecting taxable supplies, the value of 'A' shall be arrived at by reducing the ITC at the rate of 5% for every quarter or part thereof and the amount 'A' shall be credited to the electronic credit ledger [Proviso to rule 43(1)(c) of the CGST Rules, 2017].

Thus, 'A' shall be computed as under-

$$= ₹ 90,000 - ₹ 54,000 (₹ 90,000 \times 5\% \times 12 \text{ quarters})$$

$$= ₹ 36,000$$

- (5) Machinery 'Y' is being used for effecting both taxable and exempt supplies from 01.10.20XX. Prior to that it was exclusively used for effecting taxable supplies. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (6) Machinery 'Z' is being used for effecting both taxable and exempt supplies from October 1, two years prior to 01.10.20XX. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (7) ITC in respect of inputs used for effecting taxable supplies will be credited in Electronic Credit Ledger. ITC in respect of inputs used for effecting exempt supplies will not be credited in the electronic credit ledger [Rule 42 of CGST Rules, 2017].
- (8) Where any capital goods earlier used exclusively for effecting taxable supplies is subsequently **also** used for effecting exempt supplies, the value of 'A' arrived at by reducing the input tax at the rate of 5% for every quarter or part thereof shall be added to the common credit (aggregate value 'T_c' – Refer Note 9 below) [Proviso to rule 43(1)(d) of the CGST Rules, 2017].

Thus, 'A' shall be computed as under-

$$= ₹ 72,000 - ₹ 57,600 (₹ 72,000 \times 5\% \times 16 \text{ quarters})$$

$$= ₹ 14,400$$

- (9) The aggregate of the amounts of 'A' credited to the electronic credit ledger, to be denoted as 'T_c', shall be the common credit in respect of capital goods for a tax period [Rule 43(1)(d) of the CGST Rules, 2017].

- *(10) ITC attributable to a month on common capital goods during their useful life (T_m) shall be computed in accordance with rule 43(1)(e) of CGST Rules, 2017 as under:

$$= T_c \div 60$$

$$= ₹ 86,400 \div 60$$

$$= ₹ 1,440$$

- (11) Useful life of capital goods used commonly for effecting taxable supplies and exempt supplies shall be taken as five years from the date of the invoice for such goods [Rule 43(1)(c) of the CGST Rules, 2017]. Machinery 'Z' is used commonly for effecting taxable and exempt supplies from October 1, two years before 01.10.20XX. Hence, its useful life remains in the month of October 20XX and therefore, T_r will be aggregate of T_m (ITC pertaining to a month) for Machinery 'Z' and T_m for other machineries computed under point 3.(a).

T_m for machinery 'Z' will be computed as under:

$$₹ 54,000 \div 60 = ₹ 900$$

$$T_r = T_m \text{ for machinery 'Z' } + T_m \text{ for other machineries}$$

$$T_r = ₹ 900 + ₹ 1,440 = ₹ 2,340$$

- (12) Common credit attributable to the exempt supplies (T_e) along with the applicable interest (which is to be ignored in this case) shall, during every tax period of the useful life of the concerned capital goods, be added to the output tax liability of the person making such claim of credit [Rule 43(2)(h) of the CGST Rules, 2017].

**Note: In the above solution, common credit of capital goods whose remaining useful life is less than 5 years has also been divided by 60 to compute the T_m on the basis of strict interpretation of rule 43(1)(e). Owing to such an interpretation, the time period for reversal of credit increases and the amount of reversal every month decreases. However, an alternative view can be to compute T_m by dividing the common credit pertaining to capital goods whose remaining useful life is less than 5 years with the number of months in their remaining useful life. If such view is adopted, the time period for reversal of credit will decrease and the amount of reversal to be made every month will increase.*

12. As per section 10(3) of the CGST Act, 2017 read with Notification No. 8/2017 CT dated 27.06.2017 as amended, the option availed of by a registered person to pay tax under composition scheme shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds ₹ 1 crore [₹ 75 lakh in case of Special Category States except Uttarakhand and Jammu and Kashmir].

As per section 2(6) of the CGST Act, 2017, aggregate turnover means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same PAN, to be computed on all India basis but excludes CGST, SGST/UTGST, IGST and GST Compensation Cess.

In the given case, the firm is registered under the composition scheme in the State of Maharashtra. The aggregate turnover of the firm exceeds ₹ 1 crore on 03.10.20XX [aggregate of both taxable and exempt turnover from 01.04.20XX to 03.10.20XX, i.e. ₹ 1,00,05,000 (₹ 97,65,000 + ₹ 1,03,000 + ₹ 33,250 + ₹ 58,750 + ₹ 45,000)]

The inward supplies of goods transportation services in respect of which the firm has to pay tax under reverse charge have not been included in the aggregate turnover in terms of section 2(6) of the CGST Act, 2017. The tax is payable under reverse charge on such services as the applicable rate of tax on such services is given as 5% and not 12%, in which case the GTA would have been liable to pay tax under forward charge [Notification No. 13/2017 CT (R) dated 28.06.2017 as amended].

Thus, the firm will have to pay tax under regular scheme (Section 9 of the CGST Act, 2017) from 03.10.20XX.

Output tax liability of B & D Company under composition scheme

During the period when the firm pays tax under composition scheme, i.e. from 01.04.20XX to 02.10.20XX, tax will be payable on quarterly basis and no ITC will be available [Section 10(4) read with sub-sections (2) and (7) of section 39 of the CGST Act, 2017]. Further, since the firm is trading in goods, tax will be payable @ ½% [Effective rate - 1% (½% CGST + ½% SGST)] of the turnover of **taxable** supplies of goods (i.e. 'P') in the State [Section 10(1) read with rule 7 of CGST Rues, 2017].

The tax liability for the quarters ended June, 20XX, September, 20XX and December, 20XX under composition scheme will be computed as under-

Particulars	Quarter ended 30.06.20XX (₹)	Quarter ended 30.09.20XX (₹)	Quarter ended 31.12.20XX (₹)
Turnover of 'P' (Taxable supplies)	40,00,000	30,00,000	1,75,000 [1,00,000 + 31,250 + 43,750]
CGST @ 0.5% [A1]	20,000	15,000	875
SGST @ 0.5% [B1]	20,000	15,000	875
Inward supply on which tax is payable under reverse charge [Service of goods transportation availed from a GTA @ 5%]	60,000 [(1,40,000/7) x 3]	60,000 [(1,40,000/7) x 3]	Nil [Paid on 10 th day for goods transported between 11 th to 20 th day of the month, so the same will be assessed under regular scheme]
CGST @ 2.5% [A2]	1,500	1,500	-
SGST @ 2.5% [B2]	1,500	1,500	-
Total CGST [A1 + A2]	21,500	16,500	875
Total SGST [B1 + B2]	21,500	16,500	875
Total CGST liability for the period from 01.04.20XX to 02.10.20XX		38,875 [21,500 + 16,500 + 875]	
Total SGST liability for the period from 01.04.20XX to 02.10.20XX		38,875 [21,500 + 16,500 + 875]	

13. As per section 18(1)(c) of the CGST Act, 2017 read with rule 40 of CGST Rules, 2017, where any registered person ceases to pay tax under section 10, he shall be entitled to take credit of input tax in respect of inputs held in stock, inputs contained in semi-finished

or finished goods held in stock and on capital goods on the day immediately preceding the date from which he becomes liable to pay tax under section 9. However, the credit on capital goods shall be reduced by 5% per quarter of a year or part thereof from the date of invoice.

Further, ITC on supplies of inputs and capital goods shall not be available after the expiry of one year from the date of issue of tax invoice [Section 18(2) of the CGST Act, 2017].

In the light of the above-mentioned provisions, the ITC credited to the Electronic Credit Ledger of the B & D Company on inputs held in stock and capital goods on 02.10.20XX will be computed as under:

Particulars		Amount (₹)
A. ITC on inputs		
Stock of taxable inputs as on 30.09.20XX [Since no tax is paid on exempt purchases, there does not arise any question of availing ITC on the same. Hence, stock of only taxable inputs are considered]		10,00,000
Add: Purchases [No purchases are made in October, 20XX]		Nil
Less: Cost of taxable goods sold from 01.10.20XX to 02.10.20XX [(₹ 1,00,000 + ₹ 31,250 + ₹ 43,750) x 80%]		<u>1,40,000</u>
Stock of taxable inputs as on 02.10.20XX [Since the bill numbers are in continuation, it can be concluded that no sales are missing from the extract]		8,60,000
Less: More than one year old stock		<u>3,00,000</u>
Stock of inputs on which ITC can be claimed		5,60,000
ITC of CGST @ 9%	[Since all purchases are intra-State and from the suppliers registered under regular scheme]	50,400
ITC of SGST @ 9%		50,400
B. ITC on capital goods		
Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)
Computers [₹ 36,000 – (5% x 4 quarters)] ÷ 2	14,400	14,400
Printers [Being more than one year old, no ITC is available]	-	-
Motor cycle	-	-

[Section 17(5)(a) of CGST Act, 2017 allows ITC on motor vehicles only when the same are used: (1) for making taxable supply of- (i) further supply of such vehicles, (ii) transportation of passengers, (iii) imparting training on driving, flying, navigating such vehicles and (2) for transportation of goods. Since B & D Company is a trader and it does not use the motor cycle for transportation of goods, ITC thereon will not be available]		
Furniture and Fixtures [₹ 72,000 – (5% x 3 quarters)] ÷ 2	30,600	30,600
Air conditioner used in the office [Since purchased after 03.10.20XX, full ITC will be available and will be computed separately]	-	-
Exhaust fan used in the godown [₹ 9,000 – (5% x 4 quarters)] ÷ 2	<u>3,600</u>	<u>3,600</u>
<i>ITC to be claimed on capital goods</i>	<i>48,600</i>	<i>48,600</i>
Total ITC on inputs and capital goods credited to Electronic Credit Ledger on 02.10.20XX	99,000 [50,400 + 48,600]	99,000 [50,400 + 48,600]

14. Output tax liability of B & D Company under regular scheme

From 03.10.20XX, firm will pay tax under regular scheme on monthly basis in terms of sub-sections (1) and (7) of section 39 of the CGST Act, 2017 and will be eligible to avail ITC on inputs held in stock and capital goods as on 02.10.20XX in terms of section 18 of the CGST Act, 2017 as also on goods and services procured on or after 03.10.20XX and used in the course or furtherance of business in accordance with section 16 of the CGST Act, 2017. However, since common input services and capital goods are used in effecting taxable supplies as well as exempt supplies, ITC attributable to the exempt supplies will need to be added to the output tax liability of the month of October, 20XX in terms of section 17(2) read with rules 42 and 43 of the CGST Rules, 2017 respectively. Further, since all the sales are made within the State (eastern part of Maharashtra), CGST and SGST @ 9% each will be payable on the outward supplies.

The tax liability for the month of October, 20XX under regular scheme will be computed as under-

Particulars	Value (₹)	CGST (₹)	SGST (₹)
Tax on outward supply of 'P' Taxable supplies from 03.10.20XX to 31.10.20XX chargeable to CGST and SGST 9% each [₹ 8,00,000 (Refer Working Note 4)]	6,25,000	56,250	56,250
Tax on inward supplies attracting reverse charge GTA services availed chargeable to CGST and SGST @ 2.5% each (₹ 1,40,000 / 7)	20,000	500	500
ITC reversal on input services [Refer Working Note 1 below]		363	363
ITC reversal on capital goods [Refer Working Note 2 below]		<u>126</u>	<u>126</u>
Total GST liability		57,239	57,239
Less: ITC [Refer Working Note 3 below]		56,739	56,739
Less: Tax paid in cash As per section 49(4) of the CGST Act, 2017 amount available in the electronic credit ledger may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82) of the CGST Act, 2017. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.		500	500

Working Note 1

Particulars	Value (₹)	CGST (₹)	SGST (₹)
CGST & SGST @ 2.5% each paid under reverse charge on freight paid to GTA on 10.10.20XX (for the goods transported between 11.10.20XX & 20.10.20XX) will be available as ITC under regular scheme	20,000	500	500
CGST & SGST @ 9% each paid to Packing Agency on 09.10.20XX (for specialized packing to be carried out on 10.10.20XX on goods to be transported between 11.10.20XX & 20.10.20XX) will be available as ITC under regular scheme.	30,000	2,700	2,700

Total common credit		3,200	3,200
Common credit on input services attributable to exempt supplies (rounded off)		363	363
Common credit on input services availed during the period under regular scheme x (Exempt turnover made during the period under regular scheme / Total turnover during the period under regular scheme) = ₹ 3,200 x ₹ 80,000 / ₹ 7,05,000			
Turnover of 'Q' (exempt turnover) from 03.10.20XX to 31.10.20XX - ₹ 80,000 [Refer Working Note 4]			
Total turnover from 03.10.20XX to 31.10.20XX - ₹ 7,05,000 [Refer Working Note 4]			

Working Note 2

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)
ITC claimed on capital goods on 02.10.20XX [Refer Ans. 13]	48,600	48,600
Air conditioner used in the office purchased on 15.10.20XX	<u>18,000</u>	<u>18,000</u>
Common ITC [Since all the capital goods are used for effecting both taxable and exempt supplies, the entire ITC on capital goods is common]	66,600	66,600
Common credit for a tax period [Common credit ÷ 60] (rounded off)	1,110	1,110
Common credit on capital goods attributable to exempt supplies (rounded off) Common credit on capital goods during the period under regular scheme x (Exempt turnover made during the period under regular scheme / Total turnover during the period under regular scheme) = ₹ 1,110 x ₹ 80,000 / ₹ 7,05,000	126	126

Working Note 3

Particulars	CGST (₹)	SGST (₹)
ITC on inputs and capital goods claimed on 02.10.20XX [Refer Ans. 13]	99,000	99,000
ITC on air conditioner used in the office purchased on 15.10.20XX	18,000	18,000

ITC on freight paid to GTA	500	500
ITC on packing charges	<u>2,700</u>	<u>2,700</u>
Total ITC available with the firm	1,20,200	1,20,200

Working Note 4

Particulars	Total turnover for the month of October, 20XX* (₹)	Turnover in the month of October under regular scheme [03.10.20XX-31.10.20XX] (₹)
'P'	8,00,000 [(10,00,000 – 3,60,000) × 125%]	6,25,000 [8,00,000 – 1,00,000 – 31,250 – 43,750]
'Q'	1,00,000 [(2,00,000 – 1,20,000) × 125%]	80,000 [1,00,000 – 3,000 – 2,000 – 15,000]
Aggregate turnover	9,00,000	7,05,000

Note - Turnover for October, 20XX will be computed as under:

*Turnover = Cost of goods sold** × 125% (20% margin on sales = 25% margin on cost)

**Cost of goods sold = Stock as on 30.09.20XX less stock as on 31.10.20XX (since no purchases are made after September, 20XX)

15. In the given situation, three supplies are involved:

- (i) Services provided by Musicera Pvt. Ltd. to audiences by way of admission to music concert.
- (ii) Services provided by Supriya (P) Ltd. to Musicera Pvt. Ltd. by way of organising the music concert.
- (iii) Services provided by Hotel Dumdum to Supriya (P) Ltd. by way of accommodation in the Hotel lawns for organising the music concert.

The CGST and SGST or IGST liability in respect of each of the above supplies is determined as under:

- (i) As per the provisions of section 12(6) of the IGST Act, 2017, the place of supply of services provided by way of admission to, *inter alia*, a cultural event shall be the place where the event is actually held.

Therefore, the place of supply of services supplied by Musicera Pvt. Ltd. to audiences by way of admission to the music concert is the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

Since the location of the supplier (Ludhiana, Punjab) and the place of supply (Gurugram, Haryana) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply (400 tickets @ ₹ 5,000 per ticket) = ₹ 20,00,000

IGST @ 18% on value of supply = ₹ 20,00,000 x 18% = ₹ 3,60,000.

- (ii) Section 12(7)(a)(i) of IGST Act, 2017 stipulates that the place of supply of services provided by way of organization of, *inter alia*, a cultural event to a registered person is the location of such person.

Therefore, the place of supply of services supplied by Supriya (P) Ltd. to Musicera Pvt. Ltd. (Ludhiana, Punjab) by way of organising the music concert is the location of the recipient, i.e. Ludhiana (Punjab).

Since the location of the supplier (Delhi) and the place of supply (Ludhiana, Punjab) are in different States, IGST will be leviable. Therefore, IGST leviable will be computed as follows:

Consideration for supply = ₹ 10,00,000

IGST @ 18% on value of supply = ₹ 10,00,000 x 18% = ₹ 1,80,000

- (iii) As per the provisions of section 12(3)(c) of the IGST Act, 2017, the place of supply of services, by way of accommodation in any immovable property for organizing, *inter alia*, any cultural function shall be the location at which the immovable property is located.

Therefore, the place of supply of services supplied by Hotel Dumdum (Gurugram, Haryana) to Supriya (P) Ltd. by way of accommodation in Hotel lawns for organising the music concert shall be the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

Since the location of the supplier (Gurugram, Haryana) and the place of supply (Gurugram, Haryana) are in the same State, CGST and SGST will be leviable. Therefore, CGST and SGST leviable will be computed as follows:

Consideration for supply = ₹ 4,00,000

CGST @ 9% on value of supply = ₹ 4,00,000 x 9% = ₹ 36,000

SGST @ 9% on value of supply = ₹ 4,00,000 x 9% = ₹ 36,000

If the price for the entry ticket is fixed at ₹ 450, answer will change in respect of supply of service provided by way of admission to music concert, as mentioned in point (i) above. There will be no IGST liability if the consideration for the ticket is ₹ 450 as the inter-State services by way of right to admission to, *inter alia*, musical performance are exempt from IGST vide *Notification No. 9/2017 IT (R) dated 28.06.2017*, if the consideration for right to admission to the event is not more than ₹ 500 per person. However, there will be no change in the answer in respect of supplies mentioned in point (ii) and (iii) above.

16. (i) (a) Rule 138(1) of the CGST Rules, 2017 provides that e-way Bill is mandatorily required to be generated if the goods are moved, *inter alia*, in relation to

supply and the consignment value exceeds ₹ 50,000. Further, explanation 2 to rule 138(1) stipulates that the consignment value of goods shall be the value, determined in accordance with the provisions of section 15, declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UTGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

Accordingly, in the given case, the consignment value will be as follows:

$$= ₹ 48,000 \times 118\%$$

$$= ₹ 56,640.$$

Since the movement of goods is in relation to supply of goods and the consignment value exceeds ₹ 50,000, e-way bill is mandatorily required to be issued in the given case.

- (b) An e-way bill contains two parts namely, Part A to be furnished by the registered person who is causing movement of goods of consignment value exceeding ₹ 50,000/- and part B (transport details) is to be furnished by the person who is transporting the goods.

Where the goods are transported by the registered person as a consignor or the recipient of supply as the consignee, whether in his own conveyance or a hired one or a public conveyance, by road, the said person shall generate the e-way bill on the common portal after furnishing information in Part B [Rule 138(2)].

Where the goods are transported by railways or by air or vessel, the e-way bill shall be generated by the registered person, being the supplier or the recipient, who shall, either before or after the commencement of movement, furnish, on the common portal, the information in Part B [Rule 138(2A)].

Where the goods are handed over to a transporter for transportation by road, the registered person shall furnish the information relating to the transporter on the common portal and the e-way bill shall be generated by the transporter on the said portal on the basis of the information furnished by the registered person in Part A [Rule 138(3)].

Where the consignor or the consignee has not generated the e-way bill and the aggregate of the consignment value of goods carried in the conveyance is more than ₹ 50,000/, the transporter, except in case of transportation of goods by railways, air and vessel, shall, in respect of inter-State supply, generate the e-way bill on the basis of invoice or bill of supply or delivery challan, as the case may be, and may also generate a consolidated e-way bill on the common portal prior to the movement of goods [Rule 138(7)].

- (c) It is mandatory to generate e-way bill in all cases where the value of consignment of goods being transported is more than ₹ 50,000/- and it is not otherwise exempted in terms of rule 138(14) of CGST Rules, 2017. If e-way bills, wherever required, are not issued in accordance with the provisions contained in rule 138, the same will be considered as contravention of rules. As per section 122(1)(xiv) of CGST Act, 2017, a taxable person who transports any taxable goods without the cover of specified documents (e-way bill is one of the specified documents) shall be liable to a penalty of ₹ 10,000/- or tax sought to be evaded (wherever applicable) whichever is greater. Moreover, as per section 129(1) of CGST Act, 2017, where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.
- (ii) The goods to be moved to another State for replacement under warranty is not a 'supply'. However, rule 138(1) of the CGST Act, 2017, *inter alia*, stipulates that every registered person who causes movement of goods of consignment value exceeding ₹ 50,000:
- (i) in relation to a supply; or
 - (ii) for reasons other than supply; or
 - (iii) due to inward supply from an unregistered person,
- shall, generate an electronic way bill (E-way Bill) before commencement of such movement.

CBIC *vide* Q 9. of FAQs on E-way Bill has also clarified that even if the movement of goods is caused due to reasons others than supply [including replacement of goods under warranty], e-way bill is required to be issued.

Thus, in the given case, since the consignment value exceeds ₹ 50,000, e-way bill is required to be mandatorily generated. Therefore, the claim of Power Electricals Ltd. that e-way bill is not mandatorily required to be generated as the movement of goods is caused due to reasons other than supply, is not correct.

- (iii) Beauty Cosmetics Ltd. would be required to prepare two separate e-way bills since each invoice value exceeds ₹ 50,000 and each invoice is considered as one consignment for the purpose of generating e-way bills.

The FAQs on E-way Bill issued by CBIC clarify that if multiple invoices are issued by the supplier to one recipient, that is, for movement of goods of more than one invoice of same consignor and consignee, multiple e-way bills have to be generated. In other words, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved. Multiple invoices cannot be clubbed to generate one e-way bill. However,

after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

17. As per section 51 of the CGST Act, 2017 read with section 20 of the IGST Act, 2017 and Notification No. 50/2018 CT 13.09.2018, with effect from 01.10.2018, following persons are required to deduct CGST @ 1% [Effective tax 2% (1% CGST + 1% SGST/UTGST)] or IGST @ 2% from the payment made/credited to the supplier (deductee) of taxable goods or services or both, where the total value of such supply, under a contract, exceeds ₹ 2,50,000:
- a department or establishment of the Central Government or State Government; or
 - local authority; or
 - Governmental agencies; or
 - an authority or a board or any other body, -
 - set up by an Act of Parliament or a State Legislature; or
 - established by any Government, with 51% or more participation by way of equity or control, to carry out any function; or
 - Society established by the Central Government or the State Government or a Local Authority under the Societies Registration Act, 1860, or
 - Public sector undertakings.

Further, for the purpose of deduction of tax, the value of supply shall be taken as the amount excluding CGST, SGST/UTGST, IGST and GST Compensation Cess indicated in the invoice.

Since in the given case, Manihaar Enterprises is supplying goods and services exclusively to Government departments, agencies etc. and persons notified under section 51 of the CGST Act, 2017, applicability of TDS provisions on its various receivables is examined in accordance with the above-mentioned provisions as under:

S. No.	Particulars	Total contract value (₹)	Payment due (₹)	Tax to be deducted		
				CGST (₹)	SGST (₹)	IGST (₹)
(i)	Supply of stationery to Fisheries Department, Kolkata (Note-1)	2,60,000	15,000	--		
(ii)	Supply of car rental services to Municipal Corporation of Delhi (Note-2)	2,95,000	20,000	--		

(iii)	Supply of a heavy machinery to Public Sector Undertaking located in Uttarakhand (Note-3)	5,90,000	25,000			500
(iv)	Supply of taxable goods to Delhi office of National Housing Bank, a society established by Government of India under the Societies Registration Act, 1860 (Note-4)	6,49,000	50,000	500	500	
(v)	Interior decoration of Andhra Bhawan located in Delhi (Note-5)	12,39,000	12,39,000	--		
(vi)	Supply of printed books and printed post cards to a West Delhi Post Office (Note-6)	9,72,000		--		
(vii)	Maintenance of street lights in Municipal area of East Delhi (Note-7)	3,50,000	3,50,000	--		

Notes:

1. Being an inter-State supply of goods, supply of stationery to Fisheries Department, Kolkata is subject to IGST @ 18%. Therefore, total value of taxable supply [excluding IGST] under the contract is as follows:

$$= ₹ 2,60,000 \times 100 / 118$$

$$= ₹ 2,20,339 \text{ (rounded off)}$$

Since the total value of supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.

2. Being an intra-State supply of services, supply of car rental services to Municipal Corporation of Delhi is subject to CGST and SGST @ 9% each. Therefore, total value of taxable supply [excluding CGST and SGST] under the contract is as follows:

$$= ₹ 2,95,000 \times 100 / 118$$

$$= ₹ 2,50,000$$

Since the total value of supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.

3. Being an inter-State supply of goods, supply of heavy machinery to PSU in Uttarakhand is subject to IGST @ 18%. Therefore, total value of taxable supply [excluding IGST] under the contract is as follows:

$$= ₹ 5,90,000 \times 100 / 118$$

$$= ₹ 5,00,000$$

Since the total value of supply under the contract exceeds ₹ 2,50,000, PSU in Uttarakhand is required to deduct tax @ 2% of ₹ 25,000, i.e. ₹ 500.

4. Being an intra-State supply of goods, supply of taxable goods to National Housing Bank, Delhi is subject to CGST and SGST @ 9% each. Therefore, total value of taxable supply [excluding CGST and SGST] under the contract is as follows:

$$= ₹ 6,49,000 \times 100 / 118$$

$$= ₹ 5,50,000 \text{ (rounded off)}$$

Since the total value of supply under the contract exceeds ₹ 2,50,000, National Housing Bank, Delhi is required to deduct tax @ 2% (1% CGST + 1% SGST) of ₹ 50,000, i.e. ₹ 1,000.

5. Proviso to section 51(1) of the CGST Act, 2017 stipulates that no tax shall be deducted if the location of the supplier and the place of supply is in a State or Union territory which is different from the State or as the case may be, Union territory of registration of the recipient.

Section 12(3) of the IGST Act, 2017, *inter alia*, stipulates that the place of supply of services, directly in relation to an immovable property, including services provided by interior decorators, shall be the location at which the immovable property is located or intended to be located. Accordingly, the place of supply of the interior decoration of Andhra Bhawan shall be Delhi.

Since the location of the supplier (Manihar Enterprises) and the place of supply is Delhi and the State of registration of the recipient - Government of Andhra Pradesh is Andhra Pradesh, no tax is liable to be deducted in the given case.

6. If the contract is made for both taxable supply and exempted supply, tax shall be deducted if the total value of taxable supply in the contract exceeds ₹ 2,50,000. Being an intra-State supply of goods, supply of printed post cards to a West Delhi Post Office is subject to CGST and SGST @ 9% each. Therefore, total value of taxable supply [excluding CGST and SGST] under the contract is as follows:

$$= ₹ 2,72,000 \times 100 / 118$$

$$= ₹ 2,30,509 \text{ (rounded off)}$$

Since the total value of taxable supply under the contract does not exceed ₹ 2,50,000, tax is not required to be deducted.

7. Composite supply of goods and services in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply provided to, *inter alia*, local authority by way of any activity in relation to any function entrusted to a Municipality under article 243W of the Constitution is exempt from GST. Thus, maintenance of street lights (an activity in relation to a function entrusted to a Municipality) in Municipal area of East Delhi involving replacement of defunct lights and other spares where the value of supply of goods is not more than 25% of the value of composite supply is a service exempt from GST. Since tax is liable to be deducted from the payment made or credited to the supplier of taxable goods or services or both, no tax is required to be deducted in the given case as the supply is exempt.

The answer will remain unchanged even if Manihar Enterprises is registered under composition scheme. Tax will be deducted in all cases where it is required to be deducted under section 51 of the CGST Act, 2017 including the scenarios when the supplier is registered under composition scheme.

18. Computation of maximum amount of refund admissible to Kailash Global (P) Ltd.

Particulars	(₹)
Exports of product 'A' to UK [Note 1]	Nil
Domestic supplies of taxable product 'B' during the period [Note 2]	75,000
Supply of goods to Export Oriented Unit [Note 3]	Nil
Export of exempt supplies [Note 4]	<u>1,14,000</u>
Total refund claim admissible	1,89,000

Notes:

- Export of goods is a zero rated supply in terms of section 16(1)(a) of the IGST Act, 2017. Further, Kailash Global (P) Ltd. exports goods without payment of tax under letter of undertaking in accordance with the provisions of section 16(3)(a) of the IGST Act, 2017. Therefore, as per clause (i) of first proviso to section 54(3) of the CGST Act, 2017, a registered person may claim refund, of any unutilised ITC in the case of zero rated supply at the end of any tax period. However, second proviso to section 54(3) lays down that refund of unutilised ITC is not allowed if the goods exported out of India are subjected to export duty.
- Refund of unutilised ITC is allowed in case of inverted duty structure, i.e. where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies (other than nil rated or fully exempt supplies) except

supplies of goods or services or both as may be notified by the Government on the recommendations of the GST Council [Clause (ii) of the first proviso to section 54(3) of the CGST Act, 2017].

Rule 89(5) of the CGST Rules, 2017 stipulates that in the case of refund on account of inverted duty structure, refund of ITC is granted as per the following formula -

$$\text{Maximum Refund Amount} = \frac{\text{Turnover of inverted rated supply of goods and services} \times \text{Net ITC}}{\text{Adjusted Total Turnover}} - \text{Tax payable on such inverted rated supply of goods and services}$$

where-

“Net ITC” means ITC availed on inputs during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both.

“Adjusted total turnover” means the sum total of the value of:

- (a) the turnover in a State/ Union territory, as defined under section 2(112), excluding turnover of services; &
- (b) the turnover of zero-rated supply of services determined in terms of specified manner and non-zero-rated supply of services,

excluding:

- (i) the value of exempt supplies other than zero-rated supplies; and
- (ii) the turnover of supplies in respect of which refund is claimed under sub-rule (4A) or sub-rule (4B) or both, if any,

during the relevant period.

Tax payable on inverted rated supply of goods = ₹ 10,00,000 × 5% = ₹ 50,000

Here, Net ITC = ₹ 3,50,000, Adjusted Total Turnover = ₹ 28,00,000 [₹ 7,00,000 + ₹ 10,00,000 + ₹ 5,00,000 + ₹ 6,00,000] and Turnover of inverted rated supply of goods = ₹ 10,00,000

Thus, maximum refund amount under rule 89(5) = (₹ 10,00,000 × ₹ 3,50,000) / ₹ 28,00,000 - ₹ 50,000 = ₹ 75,000

3. As per section 2(39) of the CGST Act, 2017, deemed exports means such supplies of goods as may be notified under section 147 of the CGST Act, 2017. Supplies to EOU is notified as deemed export under section 147 vide *Notification No. 48/2017 CT dated 18.10.2017*. In respect of supplies regarded as deemed exports, the application of refund can be filed by the supplier of deemed export supplies only in cases where the recipient does not avail of ITC on such supplies and furnishes an undertaking to the effect that the supplier may claim the refund [Third proviso to rule 89(1) of the CGST Rules, 2017]. Therefore, since in the given case, the recipient is

claiming ITC, Kailash Global (P) Ltd. (supplier of deemed exports) cannot claim refund of ITC.

4. Section 16(2) of the IGST Act, 2017 stipulates that subject to the provisions of section 17(5) of the CGST Act, ITC may be availed for making zero-rated supplies, notwithstanding that such supply may be an exempt supply. Section 54(3) of the CGST Act, 2017 allows refund of ITC in the case of zero rated supply made without payment of tax.

Rule 89(4) of the CGST Rules, 2017 stipulates that in the case of zero-rated supply of goods or services or both without payment of tax under bond/LUT in accordance with the provisions of section 16(3) of the IGST Act, 2017, refund of ITC shall be granted as per the following formula:

$$\text{Refund Amount} = \frac{(\text{Turnover of zero-rated supply of goods} + \text{Turnover of zero-rated supply of services})}{\text{Adjusted Total Turnover}} \times \text{Net ITC}$$

where-

“Net ITC” means ITC availed on inputs and input services during the relevant period other than the ITC availed for which refund is claimed under sub-rules (4A) or (4B) or both.

“Turnover of zero-rated supply of goods” means the value of zero-rated supply of goods made during the relevant period without payment of tax under bond/LUT, other than the turnover of supplies in respect of which refund is claimed under sub-rules (4A) or (4B) or both.

“Adjusted total turnover” means the same as explained in point 2 above.

Here, Turnover of zero rated supply of goods = ₹ 6,00,000, Net ITC = ₹ 5,32,000 (ITC on outdoor catering disallowed under section 17(5) of CGST Act, 2017) and Adjusted Total Turnover = ₹ 28,00,000 (as computed in point 2 above)

Thus, maximum refund amount under rule 89(4) = ₹ 6,00,000 × ₹ 5,32,000 / ₹ 28,00,000 = ₹ 1,14,000.

19. As per section 73 of the CGST Act, 2017, a show cause notice can be issued by the proper officer if it appears to him that:
- tax has not been paid; or
 - tax has been short paid; or
 - tax has been erroneously refunded; or
 - input tax credit has been wrongly availed or utilized,

for any reason other than the reason of fraud or any wilful misstatement or suppression of facts to evade tax.

The notice should be issued at least 3 months prior to the time limit specified for passing the order determining the amount of tax, interest and any penalty payable by defaulter [Sub-section (2) of section 73].

The order referred herein has to be passed within three years from the due date for furnishing the annual return for the financial year to which the tax not paid or short paid or input tax credit wrongly availed or utilised relates to or within three years from the date of erroneous refund [Sub-section (10) of section 73].

Thus, the time-limit for issuance of show cause notice is 2 years and 9 months from the due date of filing annual return for the financial year to which the demand pertains or from the date of erroneous refund. As per section 44(1) of the CGST Act, 2017, the due date of filing annual return for a financial year is 31st day of December following the end of such financial year.

20. As per section 121 of the CGST Act, 2017, no appeal shall lie against any decision taken or order passed by a CGST officer if such decision taken or order passed relates to any one or more of the following matters, namely:—
- an order of the Commissioner or other authority empowered to direct transfer of proceedings from one officer to another officer; or
 - an order pertaining to the seizure or retention of books of account, register and other documents; or
 - an order sanctioning prosecution under the CGST Act, 2017; or
 - an order passed under section 80 of the CGST Act, 2017 (payment of tax in instalments).
21. As per section 39(9) of the CGST Act, 2017, if any registered person after furnishing a return discovers any omission or incorrect particulars therein, he shall rectify such omission or incorrect particulars in the return to be furnished for the month or quarter during which such omission or incorrect particulars are noticed, subject to payment of interest.

However, section 39(9) does not permit rectification of error or omission discovered on account of scrutiny, audit, inspection or enforcement activities by tax authorities. Further, no such rectification of any omission or incorrect particulars shall be allowed after the due date for furnishing of return for the month of September or second quarter following the end of the financial year, or the actual date of furnishing of relevant annual return, whichever is earlier.

22. **Computation of export duty**

Particulars	Amount (US \$)
Assessable value [Note 1]	1,00,000
	Amount (₹)
Assessable value = US \$ 1,00,000 x ₹ 65 [Note 2]	65,00,000
Export duty @ 10% [Note 3]	6,50,000

Notes:-

1. The transaction value, i.e. FOB price of export goods, is considered as assessable value in terms of section 14(1) of the Customs Act, 1962.
 2. As per third proviso to section 14(1) of the Customs Act, 1962, assessable value has to be calculated with reference to the rate of exchange notified by CBEC on date of presentation of shipping bill of export.
 3. The rate of duty prevalent on the date of let export order is considered for computing export duty in terms of section 16(1)(a) of the Customs Act, 1962.
23. (i) As per section 70 of the Customs Act, 1962, the conditions to be satisfied for remission of duty in case of volatile goods are:
- (a) The goods should be found deficient in quantity at the time of delivery from the warehouse;
 - (b) The deficiency should be on account of natural loss, i.e. evaporation etc. and not due to pilferage or thefts.
- (ii) The following goods have been specified as volatile for the purpose of remission of duty vide *Notification No. 03/2016 Cus. (NT) dated 11.01.2016*:
- (a) aviation fuel, motor spirit, mineral turpentine, acetone, methanol, raw naphtha, vaporizing oil, kerosene, high speed diesel oil, batching oil, diesel oil, furnace oil and ethylene dichloride, kept in tanks;
 - (b) wine, spirit and beer, kept in casks
 - (c) liquid helium gas kept in containers
 - (d) crude stored in caverns
24. Rule 3 of the General Rules for the Interpretation of the Import Tariff is used when the goods consists of more than one material or substance which are classifiable under two or more headings. The rule provides as under:
- (i) **Rule 3(a) - Specific over general:** The heading that provides a more specific description should be preferred over the heading that provides a general description. However, when two or more headings each refer to part only of the materials or substances contained in mixed or composite goods or to part only of the items in a set up for retail sale, those headings are to be regarded as equally specific in relation to those goods, even if one of them gives a more complete or precise description of the goods.
 - (ii) **Rule 3(b) – Essential character principle:** Sub-rule (b) would apply only if the goods cannot be classified under sub-rule (a). This sub-rule provides that composite goods consisting of different materials or made up of different components, and goods put up in sets for retail sale, should be classified on the basis of that material or substance that gives it its essential character.

- (iii) **Rule 3(c) – Latter the better:** If both sub-rules (a) and (b) fail to classify the goods in question, then resort may be had to sub-rule (c), which provides that composite goods shall be classified on the basis of the heading that occurs last in numerical order among those which equally merit consideration.
25. (i) No. The exemptions extended by Foreign Trade Policy can be taken only when the exemption notification is issued under the relevant tax laws. The provisions of FTP cannot override tax laws.
- (ii) Some of the categories of exports/sectors which are ineligible for duty credit scrip entitlement under MEIS are listed below:
- (a) Supplies made from DTA units to SEZ units
 - (b) Exports through trans-shipment, i.e. exports that are originating in third country but trans-shipped through India
 - (c) Deemed Exports
 - (d) SEZ/EOU/EHTP/BPT/FTWZ products exported through DTA units
 - (e) Export products which are subject to Minimum export price or export duty
 - (f) Exports made by units in FTWZ.

Note: GST law is in its nascent stage and has been subject to frequent changes. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.

**Relevant Finance Act/Notifications/Circulars etc. applicable for
May, 2019 Examination**

Paper 7 : Direct Tax Laws

Applicability of Finance Act, Assessment Year etc. for May, 2019 Examination

Paper 7: Direct Tax Laws

The provisions of direct tax laws, as amended by the **Finance Act, 2018**, including significant notifications and circulars issued up to 31st October, 2018, are applicable for May, 2019 examination. The relevant assessment year is **A.Y. 2019-20**.

Note – The September 2018 edition of the Study Material for Final (New) Paper 7: Direct Tax Laws and International Taxation is also relevant for Final (Old) Paper 7: Direct Tax Laws, with the exception of Chapters 6, 7 and 8 of Module 4 of the Study Material. In effect, all chapters in Modules 1, 2 and 3 and Chapters 1 to 5 of Module 4 of the Study Material are relevant for Final (Old) Paper 7 for May, 2019 and November, 2019 examinations. The RTP for May, 2019 contains the Statutory Update (Circulars and Notifications). The Judicial Update (Significant Select Case Laws) have been webhosted at the BOS Knowledge Portal at <https://resource.cdn.icai.org/53979bosjudicial-070219.pdf>

Paper 8 : Indirect Tax Laws

The following are applicable for May, 2019 examination:

- (i) The provisions of CGST Act, 2017 and IGST Act, 2017, including significant circulars and notifications issued upto 31st October, 2018.
- (ii) The provisions of the Customs Act, 1962, as amended by the Finance Act, 2018, including significant notifications and circulars issued up to 31st October, 2018.

List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions (Provisions which are excluded from the corresponding topic of the syllabus)
1(ii)	Levy and collection of CGST and IGST – Application of CGST/IGST law; Concept of supply including composite and mixed supplies, inter-State supply, intra-State supply, supplies in territorial waters; Charge of tax; Exemption from tax; Composition levy	CGST Act, 2017 & IGST Act, 2017 (i) Rate of tax prescribed for supply of goods * (ii) Rate of tax prescribed for supply of services * (ii) Exemptions for supply of goods

1(v)	Input tax credit	Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
1(vii)	Procedures under GST – All procedures including registration, tax invoice, credit and debit notes, electronic way bill, accounts and records, returns, payment of tax including reverse charge, refund, job work	CGST Act, 2017 and CGST Rules, 2017 (i) Furnishing of GSTR-2, GSTR-1A, GSTR-3, GSTR-7, GSTR-8 (ii) Claim of input tax credit and provisional acceptance thereof (iii) Matching, reversal & reclaim of input tax credit (iv) Matching, reversal & reclaim of reduction in output tax liability (v) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3) IGST Act, 2017 Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3)
1(xvi)	Other Provisions	Transitional Provisions

*Rates specified for computing the amount payable under composition levy are included in the syllabus.

Notes:

(1) Only the following sections of the Central Goods and Services Tax (Amendment) Act, 2018, which have become retrospectively effective from 1st July, 2017, are applicable for May, 2019 examination:

- (i) Section 3 of the CGST Amendment Act, 2018 amending section 7 of the CGST Act, 2017, and
- (ii) Section 31 of the CGST Amendment Act, 2018 amending Schedule II to the CGST Act, 2017.

Section 28 of the CGST Amendment Act, 2018 which has amended section 140 of the CGST Act, 2017, though effective from 1st July, 2017, is not applicable for May, 2019 examination as section 140 covered under “Chapter XX – Transitional Provisions” has been excluded from the syllabus by way of Study Guidelines as mentioned above. It may be noted that all the remaining provisions of the CGST Amendment Act, 2018 have

not been made effective till 31.10.2018 and hence, are not applicable for May, 2019 examination.

- (2) In the above table, in respect of the topics of the syllabus specified in column (2) the related exclusion is given in column (3). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded.
- (3) October, 2018 edition of the Study Material is relevant for May, 2019 and November, 2019 examinations. The amendments in Part-II: Customs & FTP - made after the issuance of this Study Material - to the extent covered in the Statutory Updates for May, 2019 examination alone shall be relevant for the said examination. The Statutory Updates shall be hosted on the BoS Knowledge Portal.
- (4) The entire content included in the October, 2018 edition of the Study Material, **except** the exclusions mentioned in the table above, and the Statutory Updates for May, 2019 examination shall be relevant for the said examination.