

REVISION TEST PAPERS

FINAL COURSE

GROUP – II

NOVEMBER, 2019



BOARD OF STUDIES

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

New Delhi

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REVISION TEST PAPER, NOVEMBER 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 17 questions on the following topics:

Q No	Topic	About the Problem
1.	Service Costing	Practical problem on a public utility company
2.	Decision Making	Practical problem on labour related decision
3.	Just in Time	Practical problem on JIT vs Traditional System
4.	CVP Analysis	Practical problem on CVP analysis

5.	Pricing Decision	Practical problem on profit maximisation model
6.		Practical problem on return on investment pricing
7.		Question on the basic concepts of pricing strategy
8.	Budget	Question on the basic concepts of zero based budgeting
9.		Practical problem based on basic the concepts of budget
10.	Standard Costing	Practical problem on profit reconciliation by using contribution approach
11.	Transfer Pricing	Computation of transfer price through profit maximization model
12.	Linear Programming	Dual problem
13.	Assignment Problem	Practical problem on minimization
14.	CPM	Practical problem on CPM requiring finding missing figures
15.	Simulation	Simulation problem on cash flow projection and expected cash balance
16.	Learning Curve	Practical problem on learning curve
17.	Miscellaneous	Question on activity based costing

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

The RTP of ISCA relevant for November, 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 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 30.4.2019 are relevant for November, 2019 Examination. The relevant assessment year for November, 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 and 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 for November, 2019 examination has been webhosted at the BoS Knowledge Portal on the Institute's website at <https://resource.cdn.icai.org/55884bos45292.pdf>. Students may refer to the "Capsule for Quick Recap" hosted at <https://resource.cdn.icai.org/53779bos43218finaloldp7.pdf> for revision 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 November, 2019 examination:

- (i) The provisions of CGST Act, 2017 and IGST Act, 2017 as amended by the CGST (Amendment) Act, 2018 and IGST (Amendment) Act, 2018, including significant circulars and notifications issued up to 30th April 2019.

- (ii) The provisions of the Customs Act, 1962, as amended by the Finance Act, 2018, including significant notifications and circulars issued up to 30th April 2019.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of “**Study Guidelines for November 2019 Examination**”. The same is given as part of “Relevant Finance Act/Notifications/Circulars etc. applicable for November 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 knowledge. 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 01.11.2018 to 30.04.2019 for GST and 01.05.2018 to 30.04.2019 for Customs and FTP are web-hosted at the BoS Knowledge Portal on the ICAI's website www.icai.org.

PAPER – 5 : ADVANCED MANAGEMENT ACCOUNTING

QUESTIONS

Public Utility Service

1. A public company responsible for the supply of domestic gas has been approached by several prospective customers in a rural area adjacent to a high-pressure main. As a condition of its license to operate as a utility, the company is obliged to respond positively to current needs provided the financial viability of the company is not put at risk. New customers are charged ₹ 250 each for connection to the system.

Once a meter is installed, a standing charge of ₹ 10 per quarter is billed. Charges for gas are levied at ₹ 400 per 1,000 metered units.

A postal survey of the area containing, according to the rating authority, 5,000 domestic units, elicited a 40% response rate. 95% of those who responded confirmed that they wished to become gas users and expressed their willingness to pay the connection charge.

Although it is recognized that a small percentage of those willing to pay for connection may not actually choose to use gas, it is expected that the average household will burn 50 metered units per month. There will be some seasonal differences.

The company's marginal cost of capital is 17% pa and supplies of bulk gas cost the company ₹ 0.065 per metered unit. Wastage of 15% has to be allowed to determine what the maximum capital project cost can be to allow the company to provide the service required.

Labour Related Decision

2. If DBC Ltd. is producing a component called 'DBC'. Estimated costs are:

	Fixed Cost per year (₹ '000)	Variable Cost per 'DBC' (₹)
Production	32,000	3,600
Distribution	2,000	200

Direct labour costs are 40% of the variable production costs. In the production department machining and assembling of 'DBC', 90 men work 8 hours per day for 300 days in a year. Each worker can machine and assemble 1 'DBC' per uninterrupted 180 minutes time frame. In each 8 hours working day, 20 minutes are allowed for coffee-break, 30 minutes on an average for training and 22 minutes for supervisory instructions. Besides 10% of each day is booked as idle time to cover checking in and checking out changing operations, getting materials and other miscellaneous matters.

DBC Ltd. has been facing industrial relations problem as the workers of company have a very strong union. Company is faced with the possibility of a strike by direct production workers engaged on the assembly of 'DBC'. The trade union is demanding an increase of

15%, back-dated from the beginning of financial year, but the company expects that if a strike does take place, it will last 25 Days after which the union will settle for an increase of 10% similarly back-dated. The only product of the company is being sold at ₹6,000.

If the strike takes place, Sales of 1,300 'DBC' would be lost. The balance that would ordinarily have been produced during the strike period could, however be sold, but these 'DBC' would have to be made up in overtime working which would be at an efficiency rate of 90% of normal. This would entail additional fixed cost of ₹1,00,000 and wage payments at time and one-half.

Required

Give necessary advice to the management to allow the strike to go ahead or to accept the union's demand.

Just in Time

3. Revolution Ltd. has entered into a contract to supply a component to a company which manufactures electronic equipments.

Expected demand for the component will be 70,000 units totally for all the periods. Expected sales and production cost will be

Period	1	2	3	4
Sales (units)	9,500	17,000	18,500	25,000
Variable cost per unit	30	30	32.50	35

Total fixed overheads are expected to be ₹14 lakhs for all the periods.

The production manager has to decide about the production plan.

The choices are:

Plan 1: Produce at a constant rate of 17,500 units per period. Inventory holding costs will be ₹ 6.50 per unit of average inventory per period.

Plan 2: Use a just-in-Time (JIT) system

Maximum capacity per period normally 18,000 units

It can produce further up to 10,000 units per period in overtime.

Each unit produced in overtime would incur additional cost equal to 30% of the expected variable cost per unit of that period.

Assume zero opening inventory.

Required

- (i) CALCULATE the incremental production cost and the savings in inventory holding cost by JIT production system.
- (ii) ADVISE the company on the choice of a plan.

CVP Analysis

4. The profit for the year of Garena Ltd. works out to 12.5% of the capital employed and the relevant figures are as under:

Sales.....	₹5,00,000
Direct Materials.....	₹2,50,000
Direct Labour.....	₹1,00,000
Variable Overheads.....	₹40,000
Capital Employed.....	₹4,00,000

The new Sales Manager who has joined the company recently estimates for next year a profit of about 23% on capital employed, provided the volume of sales is increased by 10% and simultaneously there is an increase in Selling Price of 4% and an overall cost reduction in all the elements of cost by 2%.

Required

Find out by computing in detail the cost and profit for next year, whether the proposal of Sales Manager can be adopted.

Profit Maximisation Model

5. APV Ltd. has developed a new product which is about to be launched into the market. The variable cost of selling the product is ₹ 17 per unit. The marketing department has estimated that at a sale price of ₹ 25, annual demand would be 10,000 units. However, if the sale price is set above ₹ 25, sales demand would fall by 500 units for each ₹ 0.50 increase above ₹ 25. Similarly, if the price is below ₹ 25, demand would increase by 500 units for each ₹ 0.50 stepped reduction in price below ₹ 25.

Required

Determine the price which would maximise APV Ltd.'s profit in the next year.

Return on Investment Pricing

6. The cost of production and sales of 80,000 units per annum of product 'I' are:

Material.....	₹ 4,80,000	Labour.....	₹ 1,60,000
Variable Overhead.....	₹ 3,20,000	Fixed overhead.....	₹ 5,00,000

The fixed portion of capital employed is ₹12 lacs and the varying portion is 50% of sales turnover.

Required

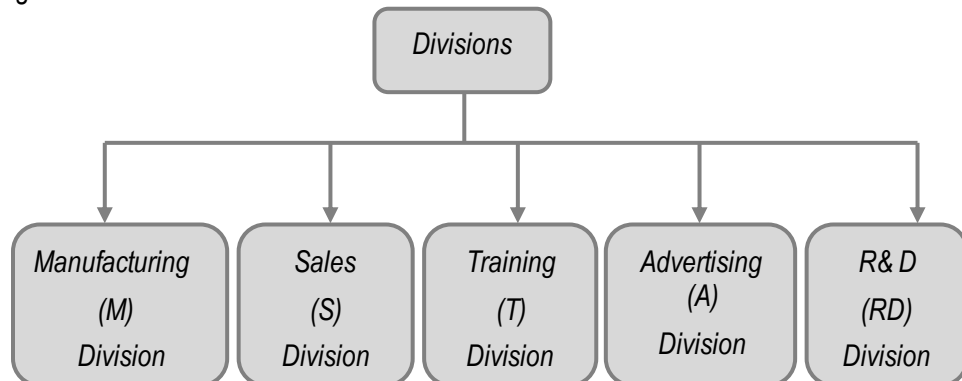
Determine the selling price per unit to earn a return of 12% net on capital employed (net of Tax @ 40%).

Pricing Strategy

7. State the appropriate pricing policy in each of the following independent situations:
- 'W' is a new product for the company and the market and meant for large scale production and long term survival in the market. Demand is expected to be elastic.
 - 'X' is a new product for the company, but not for the market. B's success is crucial for the company's survival in the long term.
 - 'Y' is a new product to the company and the market. It has an inelastic market. There needs to be an assured profit to cover high initial costs and the usual sources of capital have uncertainties blocking them.
 - 'Z' is a perishable item, with more than 80% of its shelf life over.

Budget – Zero Based Budgeting

8. Air Communication Limited is a state-owned large public company in the telecommunications sector. One of its main planning and control tools is the preparation and use of traditional annual budgets. Its divisional structure is as under:



Division T, A and RD incur substantial amount on discretionary expenses.

Required

Identify the possibilities of introducing a Zero Based Budgeting system for Division T, A and RD.

Budget – Missing Figure

9. Following information are extracted from monthly budgets of JIT Ltd.

	November	December
Beginning WIP Inventory	36,000	???
Beginning Finished Goods Inventory	44,000	???

Variable Cost of Goods Sold	1,23,000	???
Direct Material Usage	50,000	56,000
Direct Labour	53,100	69,000
Variable Overhead	25,000	29,000
Variable Cost of Goods Manufactured	1,07,500	1,15,900
Ending WIP Inventory	???	???
Ending Finished Goods Inventory	???	45,000

Required

Find out missing figures.

Standard Costing – Profit Reconciliation

10. HKT Ltd. has provided the following summarized results for two years:

	Year ended (₹ In lacs)	
	31-03-2018	31-3-2019
Sales	3,000	3,277.50
Material	2,000	2,357.50
Variable overheads	500	525.00
Fixed overheads	300	367.50
Profit	200	27.50

During the year ended 31-3-2019 sale price has increased by 15% whereas material and overhead prices have increased by 15% and 5% respectively.

Required

- Analyse the variances of revenue and each element of cost over the year in order to bring out the reasons for the change in profit.
- Present a profit reconciliation statement starting from profits in 2017-18 showing the factors responsible for the change in profits in 2018-19.

Note – Consider ‘Contribution Variances’ for solving this question.

Transfer Pricing

11. Great Southern Company Ltd. has two Divisions namely Casnub Bogie Division (CBD) and Wagon Division (WD). CBD manufactures Casnub Bogies and WD manufactures BOBN type of Wagons. To manufacture a Wagon WD needs four Casnub Bogies. CBD is the only manufacturer of the Casnub Bogies and supplies both WD and outside customers. Details of CBD and WD for the coming financial year 2019-20 are as follows:

	CBD	WD
Fixed Costs (₹)	9,20,20,000	16,45,36,000
Variable Cost per unit (₹)	2,20,000	4,80,000*
Capacity per month (units)	320	12

* excluding transfer costs

Market research has indicated that the demands in the market for Great Southern Company Ltd.'s products at different quotations are as follows-

For Casnub Bogies: Quotation price of ₹3,20,000 no tender will be awarded, but demand will increase by 30 Casnub Bogies with every ₹10,000 reduction in the unit quotation price below ₹3,20,000.

For Wagons: Quotation price of ₹17,10,000 no tender will be awarded, but the demand for Wagons will be increased by two Wagons with every ₹50,000 reduction in the unit quotation price below ₹17,10,000.

Required

- Calculate the unit quotation price of the Wagon that will maximise Great Southern Company Ltd.'s profit for the financial year 2019-20.
- Calculate the unit quotation price of the Wagon that is likely to emerge if the divisional managers of CBD and WD both set quotation prices calculated to maximise divisional profit from sales to outside customers and the transfer price is set at market selling (quotation) price.

[Note: If $P = a - bQ$ then $MR = a - 2bQ$]

Linear Programming

12. Find the dual problem for the following:

Minimize

$$Z = 2x_1 - 3x_2 + 4x_3$$

Subject to the constraints

$$3x_1 + 2x_2 + 4x_3 \geq 9$$

$$2x_1 + 3x_2 + 2x_3 \geq 5$$

$$7x_1 - 2x_2 - 4x_3 \leq 10$$

$$6x_1 - 3x_2 + 4x_3 \geq 4$$

$$2x_1 + 5x_2 - 3x_3 = 3$$

$$x_1, x_2, x_3 \geq 0$$

Assignment Problem – Minimisation

13. A factory is going to modify of a plant layout to install four new machines X_1 , X_2 , X_3 and X_4 . There are 5 vacant places P, Q, R, S and T available. Because of limited space machine X_2 cannot be placed at R and X_3 cannot be placed at P. The cost of locating machine to place in Rupees is shown below:

(₹)

	P	Q	R	S	T
X_1	9	11	15	10	11
X_2	12	9	--	10	9
X_3	--	11	14	11	7
X_4	14	8	12	7	8

Required

Determine the optimal assignment schedule in such a manner that the total costs are kept at a minimum.

Missing Figures & Network

14. The number of days of total float (TF), earliest start times (EST) and duration in days are given for some of the following activities.

Activity	TF	EST	Duration
1–2	0	0	???
1–3	2	???	???
1–4	5	???	???
2–4	0	4	???
2–5	1	???	5
3–6	2	12	???
4–6	0	12	???
5–7	1	???	???
6–7	???	23	???
6–8	2	???	???
7–8	0	23	???
8–9	???	30	6

Required

- (i) Find the??? Figures.
(ii) Draw the network.
(iii) List the paths with their corresponding durations and state when the project can be completed.
15. 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

16. West Wood Appliances Ltd. (WWAL) manufactures consumer durable products in a very highly competitive market. WWAL is considering launching a new product 'W-9' into the market and gathered the following data:

Expected Market Price- ₹ 5,000 per unit

Direct Material Cost- ₹ 1,850 per unit

Direct Labour Cost- ₹ 80 per hour

Variable Overhead Cost- ₹ 1,000 per unit

Packing Machine Cost (specially to be purchased for this product)- ₹5,00,000

WWAL expects the selling price for the new product will continue throughout the product's life and a total of 1,000 units can be sold over the entire lifetime of the product.

Direct labour costs are expected to reduce as the volume of output increases due to the effects of 80% learning curve (index is -0.3219). The expected time to be taken for the first unit is 30 hours and the learning effect is expected to end after 250 units have been produced. Units produced after first 250 units will take the same time as the 250th unit.

Required

- (i) Calculate the expected total labour hours over the life time of the product 'W-9'.
- (ii) Profitability of product 'W-9' that WWAL will earn over the life time of the product.
- (iii) Average target labour cost per unit over the life time of the product if WWAL requires average profit of ₹ 800 per unit, to achieve its long term objectives.

Note: $250^{-0.3219} = 0.1691$, $249^{-0.3219} = 0.1693$

Miscellaneous

17. Indicate 6 activity drivers in respect of each of the following activity cost pools:

- (i) Human Resources Cost
- (ii) Accounting Costs

SUGGESTED ANSWERS/HINTS

1. Working Notes

- 1. No. of Customer = 1,900 (5,000 × 40% × 95%)
- 2. Consumption of Gas = 11,40,000 Metered units
(1,900 × 50 mt × 12 months)
- Gas Supply = 13,41,176 Metered units
{11,40,000 × (100 ÷ 85)}

3. Cash Inflow

(₹)	
Rent (1,900 × 4 Quarters × ₹ 10)	76,000
Add: Consumption Charge (11,40,000 × ₹ 0.4)	4,56,000
Less: Cost of Company (13,41,176 × ₹ 0.065)	87,176
Cash Inflow p.a.	4,44,824

One Time Connection Charge = ₹ 4,75,000 (₹ 250 × 1,900 customers)

Maximum Capital Project Cost Can be to Allow the Company to Provide the

Service Required

By Following the Concept of Perpetuity

$$(\text{Investment} - ₹ 4,75,000) \times 17\% = ₹ 4,44,824$$

$$\therefore \text{Investment} = ₹ 30,91,612$$

2. Alternative-1 with No Strike: (Refer W.N.-2, 3)

Cost of Settlement is 15% Increase i.e. ₹216 per unit

Annual Cost of Settlement

$$= 54,000 \text{ units} \times ₹216$$

$$= ₹1,16,64,000$$

Alternative 2 i.e. if Strike Goes Ahead: (Refer W.N.-1, 2, 3)

Extra Cost	(₹)
Annual Incremental Labour Cost (Ex. Strike Days Production) [[54,000 units – (25 Days × 180 units per Day)] × ₹144.00]	71,28,000
Loss of Contribution <i>due to loss of sales</i> [1,300 units × ₹ 2,200]	28,60,000
Incremental Labour Cost for Balance 3,200 units [(25 Days × 180 units per Day) – 1,300 units] × ₹144.00]	4,60,800
Overtime Premium [3,200 units × 1,584 × 0.5]	25,34,400
Payment for Efficiency [3,200 units × 1/9 × 1,584 × 1.5]	8,44,800
Additional Fixed Cost	1,00,000
	1,39,28,000

If there is no strike, it will yield a financial benefit of ₹ 22,64,000 (₹1,39,28,000 – ₹ 1,16,64,000). Management should accept union's demand.

Working Note**(1) Statement Showing Contribution per unit of 'DBC'**

	(₹)
Selling Price	6,000
Less: Variable Costs:	
Labour Cost	1,440
Production Ex. Wages (₹3,600 – ₹1,440)	2,160
Distribution	200
Contribution	2,200

(2) Calculation of Labour Cost

Direct Labour (40% of production costs of ₹3,600)	=	₹1,440 per unit
With 15% Increase, Revised Labour Cost (₹1,440 + ₹216)	=	₹1,656
With 10% Increase, Revised Labour Cost (₹1,440 + ₹144)	=	₹1,584

(3) Statement Showing Budgeted Production

Total Time in a Day: (8hrs. × 60 minutes)	=	480 minutes
Less: Idle Time	=	48 minutes
Coffee Break	=	20 minutes
Instructions	=	22 minutes
Training	=	30 minutes
Productive Time per day	=	360 minutes
Therefore, 'DBC' to be produced per man per day: (360/180 × 1)	=	2 units

Since 'DBC' are produced at the rate of 2 'DBC' per man day, so total yearly production will be 54,000 units (2 units × 90 men × 300 days) of 'DBC'



This problem has been solved by comparing 'Existing Situation' with both 'Alternatives (Strike or Non-Strike)' independently. However this problem can also be solved by comparing 'Alternatives (Strike or Non-Strike)' only and final answer would be the same. Students may also solve this problem by taking 'Total Approach' instead of 'Incremental Approach'.

3. (i) Workings

Statement Showing 'Inventory Holding Cost' under Plan 1

Particulars	Pd. 1	Pd. 2	Pd. 3	Pd.4
Opening Inventory (A)	---	8,000	8,500	7,500
Add: Production	17,500	17,500	17,500	17,500
Less: Demand/ Sales	9,500	17,000	18,500	25,000
Closing Inventory (B)	8,000	8,500	7,500	---
Average Inventory $\left(\frac{A+B}{2}\right)$	4,000	8,250	8,000	3,750
Inventory Holding Cost @ ₹6.50	26,000	53,625	52,000	24,375

Inventory Holding Cost for the four periods = ₹1,56,000

(₹26,000+₹53,625+₹52,000+₹24,375)

Statement Showing 'Additional Cost-Overtime' under Plan 2 (JIT System)

Particulars	Pd. 1	Pd. 2	Pd. 3	Pd.4
Demand/ Sales	9,500	17,000	18,500	25,000
Production in Normal Time	9,500	17,000	18,000	18,000
Production in Over Time (A)	---	---	500	7,000
Variable Cost <i>per unit</i>	30.00	30.00	32.50	35.00
Additional Cost – Overtime <i>per unit</i> (B) (@ 30% of Variable Cost)	9.00	9.00	9.75	10.50
Additional Cost – Overtime (A) × (B)	---	---	4,875	73,500

Total Additional Payment (Overtime) = ₹78,375
(₹4,875 + ₹73,500)

Statement Showing 'Additional Variable Cost*' under Plan 2 (JIT System)

Particulars	Pd. 1	Pd. 2	Pd. 3	Pd.4	Total
Production (Plan 1)	17,500	17,500	17,500	17,500	70,000
Variable Cost ... (A)	5,25,000	5,25,000	5,68,750	6,12,500	22,31,250
Production (Plan 2, JIT)	9,500	17,000	18,500	25,000	70,000
Variable Cost (B)	2,85,000	5,10,000	6,01,250	8,75,000	22,71,250
Total				(B) – (A)	40,000

* *excluding overtime cost*

Incremental Production Cost in JIT System = ₹78,375 + ₹40,000
= ₹1,18,375

Therefore, Saving in JIT System (Net) = ₹1,56,000 – ₹1,18,375
= ₹37,625

(ii) Advice

Though Revolution Ltd is saving ₹37,625 by changing its production system to Just-in-time but it has to consider *other factors* as well before taking any final call which are as follows:-

- Revolution Ltd has to ensure that it receives materials from its suppliers on the exact date and at the exact time when they are needed. Credentials and reliability of supplier must be thoroughly checked.

- To remove any quality issues, the engineering staff must visit supplier's sites and examine their processes, not only to see if they can reliably ship high-quality parts but also to provide them with engineering assistance to bring them up to a higher standard of product.
- Revolution Ltd should also aim to improve quality at its process and design levels with the purpose of achieving "Zero Defects" in the production process.
- Revolution Ltd should also keep in mind the efficiency of its work force. Revolution Ltd must ensure that labour's learning curve has reached at steady rate so that they are capable of performing a variety of operations at effective and efficient manner. The workforce must be completely retrained and focused on a wide range of activities.

4. **Statement Showing "Cost and Profit for the Next Year"**

Particulars	Existing Volume, etc.	Volume, Costs, etc. after 10% Increase	Estimated Sale, Cost, Profit, etc.*
	(₹)	(₹)	(₹)
Sale	5,00,000	5,50,000	5,72,000
Less: Direct Materials	2,50,000	2,75,000	2,69,500
Direct Labour	1,00,000	1,10,000	1,07,800
Variable Overheads	40,000	44,000	43,120
Contribution	1,10,000	1,21,000	1,51,580
Less: Fixed Cost [#]	60,000	60,000	58,800
Profit	50,000	61,000	92,780

(*) for the next year after increase in selling price @ 4% and overall cost reduction by 2%.

(#) Fixed Cost = Existing Sales – Existing Marginal Cost – 12.5% on ₹4,00,000
 = ₹5,00,000 – ₹3,90,000 – ₹50,000
 = ₹60,000

Percentage Profit on Capital Employed equals to 23.19% $\left(\frac{₹92,780}{₹4,00,000} \times 100 \right)$

Since the Profit of ₹92,780 is more than 23% of capital employed, the proposal of the Sales Manager can be adopted.

5. **Statement of Total Contribution**

Sales Price p.u. (₹)	Variable Cost p.u. (₹)	Contribution p.u. (₹)	Sales Volume (units) (₹)	Total Contribution (₹)
(1)	(2)	(3) = (1) – (2)	(4)	(5) = (3) × (4)
25.00	17.00	8.00	10,000	80,000
24.50	17.00	7.50	10,500	78,750
24.00	17.00	7.00	11,000	77,000
25.50	17.00	8.50	9,500	80,750
26.00	17.00	9.00	9,000	81,000
26.50	17.00	9.50	8,500	80,750
27.00	17.00	10.00	8,000	80,000
27.50	17.00	10.50	7,500	78,750

From the above statement it is quite apparent that the contribution would be maximum at a sale price of ₹26 per unit and sales demand of 9,000 units.



This problem can also be solve by using 'Profit Maximisation' model formula.

6. Return of 12% Net (after tax of 40%) on Capital Employed is equivalent to 20% (Gross) [12% ÷ (1 – 0.4)] on Capital Employed.

Let Selling Price per unit to be 'K'

Since Total Sales = Total Cost + Profit

$$80,000 K = 14,60,000 + 20\% (12,00,000 + 0.5 \times 80,000K)$$

$$\text{Or, } 80,000 K = 14,60,000 + 2,40,000 + 8,000K$$

$$\text{Or, } 72,000 K = 17,00,000$$

$$\text{Or, } 'K' = \frac{17,00,000}{72,000}$$

$$= ₹23.61$$

Hence Selling Price per unit will be ₹23.61.

7.

Situation		Appropriate Pricing Policy
(i)	'W' is a new product for the company and the market and meant for large scale production and long term survival in the market. Demand is expected to be elastic.	Penetration Pricing
(ii)	'X' is a new product for the company, but not for the market. X's success is crucial for the company's survival in the long term.	Market Price or Price Just Below Market Price
(iii)	'Y' is a new product to the company and the market. It has an inelastic market. There needs to be an assured profit to cover high initial costs and the unusual sources of capital have uncertainties blocking them.	Skimming Pricing
(iv)	'Z' is a perishable item, with more than 80% of its shelf life over.	Any Cash Realizable Value*

(*) *this amount decreases every passing day.*

8. Discretionary costs are those that are incurred, typically each year, in an amount that is approved as part of the normal budget process. However, there is no clear relationship between the volume of services and the amount of cost that must be incurred. Manager must decide and justify the level that is deemed to be appropriate. This justification is to be made a fresh without making reference to previous level of spending in his/her department.

Zero based budgeting is undoubtedly most effective in terms of discretionary costs. The bottom line of a zero based budgeting is that it is important to understand what types of objectives are being accomplished by discretionary cost centers and what resources being devoted to accomplishing various objectives. This will allow a prioritization, so that organization can evaluate the likely impact of substantial increase or decrease in the resources allocated to the discretionary center.

Accordingly, ZBB has extensive potential application to the division T, A and RD.

9. Analysis of WIP Account

	November	December
Opening WIP	36,000	56,600
Add: Direct Materials Usage	50,000	56,000
Add: Direct Labor	53,100	69,000
Add: Variable Overhead	25,000	29,000

Total Inflow into WIP	1,64,100	2,10,600
Less: Variable Cost of Goods Manufactured	1,07,500	1,15,900
Ending WIP	56,600	94,700

Analysis of Finished Goods Inventory Account

	November	December
Opening Finished Goods	44,000	28,500
Add: Cost of Goods Manufactured	1,07,500	1,15,900
Cost of Goods Available for Sale	1,51,500	1,44,400
Less: Cost of Goods Sold	1,23,000	99,400
Ending Finished Goods Inventory	28,500	45,000

10. Statement Showing Reconciliation Between Budgeted [F.Y. 2017-18] & Actual Profit [F.Y. 2018-19]

Particulars	(₹ in lacs)	(₹ in lacs)
Budgeted Profit		200.00
Sales Contribution Variances:		
Price	427.50 (F)	
Volume	25 (A)	402.50 (F)
Direct Material Variances:		
Price	307.50 (A)	
Usage	150.00 (A)	457.50 (A)
Variable Overheads Variances:		
Expenditure	25.00 (A)	
Efficiency	25.00 (A)	50.00 (A)
Fixed Overheads Variances:		
Expenditure	67.50 (A)	
Volume	N.A.	67.50 (A)
Actual Profit		27.50

Computation of Variances (₹ In Lacs)

Sales Variances (W.N.1)

$$\begin{aligned} \text{Price Variance} &= \text{Actual Sales} - \text{Standard Sales} \\ &= ₹ 3,277.50 - ₹ 2,850.00 \end{aligned}$$

$$= ₹ 427.50 (F)$$

$$\begin{aligned} \text{Volume Variance} &= \text{Standard Sales} - \text{Budgeted Sales} \\ &= ₹ 2,850.00 - ₹ 3,000.00 \\ &= ₹ 150 (A) \end{aligned}$$

Sales Contribution Variances

$$\text{Sales Contribution} = \text{Sales Price Variance}$$

Price Variance

$$= ₹ 427.50 (F)$$

$$\text{Sales Contribution} = \text{Sales Volume Variance} \times \text{Budgeted PV Ratio}$$

Volume Variance

$$\begin{aligned} &= ₹ 150 (A) \times \left(\frac{₹ 200 + ₹ 300}{₹ 3,000} \right) \\ &= ₹ 25 (A) \end{aligned}$$

Material Variances (W.N.2)**Material Price Variance**

$$\begin{aligned} &= \text{Standard Cost of Actual Quantity} - \text{Actual Cost} \\ &= ₹ 2,050.00 - ₹ 2,357.50 \\ &= ₹ 307.50 (A) \end{aligned}$$

Material Usage Variance

$$\begin{aligned} &= \text{Standard Cost of Standard Quantity for Actual Output} - \\ &\quad \text{Standard Cost of Actual Quantity} \\ &= ₹ 1,900 - ₹ 2,050 \\ &= ₹ 150 (A) \end{aligned}$$

Variable Overhead Variances (W.N.3)**Expenditure Variance**

$$= \text{Budgeted Variable Overheads for Actual Hours} - \text{Actual Variable Overheads}$$

Or

$$= \text{Std. Rate per unit} \times \text{Expected Output for Actual Hours Worked} - \text{Actual Variable Overheads}$$

$$= ₹ 500 - ₹ 525$$

$$= ₹ 25 (A)$$

Efficiency Variances= Standard Variable Overheads for Production – Budgeted Variable Overheads for Actual Hours

Or

$$= \text{Std. Rate per unit} \times \text{Actual Output} - \text{Std. Rate per unit} \times \text{Expected Output for Actual Hours Worked}$$

$$= ₹ 475 - ₹ 500$$

$$= ₹ 25 (A)$$

Fixed Overhead Variances (W.N.4)

Expenditure Variance

$$= \text{Budgeted Fixed Overheads} - \text{Actual Fixed Overheads.}$$

$$= ₹ 300.00 - ₹ 367.50$$

$$= ₹ 67.50 (A)$$

Working Notes (₹ in lacs)

Note-1:

Sales in F.Y. 2018-2019	3,277.50
Less: Increase due to <i>price rise</i> [₹ 3,277.50 lacs x 15/115]	427.50
Sales in F.Y. 2018-2019 at F.Y. 2017-2018 Prices [Standard Sales]	2,850.00
Sales in F.Y. 2017-2018	3,000.00
Fall in Sales in F.Y. 2018-2019 [₹ 3,000 lacs - ₹ 2,850 lacs]	150.00
Percentage fall	5%

Note-2:

Material Cost in F.Y. 2017-2018	2,000.00
Less: 5% for Decrease in Volume	100.00
'Standard Material Usage' at F.Y. 2017-18 Prices (Standard Cost of Standard Quantity for Actual output)	1,900.00
Actual Material Cost F.Y. 2018-2019	2,357.50
Less: 15% Increase in Prices [₹ 2,357.50 lakhs x 15/115]	307.50
Actual Materials Used, at F.Y. 2017-2018 Prices (Standard Cost of Actual Quantity)	2,050.00

Note-3:

Variable Overheads Cost in F.Y. 2017-18	500.00
Less: 5% due to fall in Volume of Sales in F.Y. 2018-19	25.00
"Standard Overheads for Production" in F.Y. 2018-19	475.00
Actual Variable Overheads Incurred in F.Y. 2018-19	525.00
Less: 5% for Increase in Price [₹ 525 lacs x 5 / 105]	25.00
Amount Spent in F.Y. 2018-19 at F.Y. 2017-18 Prices (Budgeted Variable Overheads for Actual Hours)	500.00

11. (i) Assumed Quotation Price 'P', Quantity 'Q'

The Marginal Cost of a 'Wagon' is ₹13,60,000

(₹2,20,000 × 4 Casnub Bogies + ₹4,80,000)

Demand Function for a 'Wagon'

$$P = ₹17,10,000 - (\₹50,000 / 2) \times Q$$

$$\begin{aligned} \text{Revenue (R)} &= Q \times [17,10,000 - 25,000 \times Q] \\ &= 17,10,000 Q - 25,000 Q^2 \end{aligned}$$

$$\text{Marginal Revenue (MR)} = 17,10,000 - 50,000 Q$$

$$\text{Marginal Cost (MC)} = 13,60,000$$

Profit is Maximum where Marginal Revenue (MR) equals to Marginal Cost (MC)

$$17,10,000 - 50,000 Q = 13,60,000$$

$$Q = 7.00 \text{ units}$$

By putting the value of 'Q' in *Demand Function*, value of 'P' is obtained.

$$\begin{aligned} P &= 17,10,000 - (50,000/2) \times Q \\ &= 17,10,000 - 25,000 \times 7.00 \\ &= ₹15,35,000 \end{aligned}$$

At ₹15,35,000 unit Quotation Price of a Wagon the Great Southern Company Ltd.'s Profit will be Maximum.

(ii) At CBD the Divisional Manager would ensure that Divisional Marginal Revenue should be **equal to** Division's Marginal Cost so that Profit can be Maximum.

$$\text{MR of a Casnub Bogies} = \text{MC of Manufacturing a Casnub Bogies}$$

$$3,20,000 - 2(10,000/30) \times Q = 2,20,000$$

$$Q = 150 \text{ units}$$

Selling Price of a Casnub Bogie 'P' is

$$\begin{aligned} P &= 3,20,000 - (10,000/30) \times 150 \\ &= ₹2,70,000 \end{aligned}$$

CBD will earn Maximum Profit when it will Quote ₹2,70,000 to the Outside Market. Since, Outside Market Quotation is *Transfer Price* as well, so Transfer Price to WD will be ₹2,70,000 and it forms part of WD's Marginal Cost.

At WD, Division Manager would ensure that Divisional Marginal Revenue should be **equal to** Division's Marginal Cost so that Profit can be Maximum.

$$\begin{aligned} \text{MR of a Wagon} &= \text{MC of Manufacturing a Wagon} \\ 17,10,000 - 50,000 \times Q &= (\text{₹}2,70,000 \times 4 \text{ Casnub Bogies}) + \\ &\quad \text{₹}4,80,000 \end{aligned}$$

$$Q = 3.00 \text{ units}$$

Quotation Price of a Wagon 'P' should be:

$$\begin{aligned} P &= ₹17,10,000 - 25,000 \times 3.00 \\ &= ₹16,35,000 \end{aligned}$$

The unit Quotation Price of Wagon that emerges as a result of Market Based Transfer Pricing is ₹16,35,000.

12. Primal

$$\text{Minimize } Z = 2x_1 - 3x_2 + 4x_3$$

Subject to the constraints

$$\begin{aligned} 3x_1 + 2x_2 + 4x_3 &\geq 9 \\ 2x_1 + 3x_2 + 2x_3 &\geq 5 \\ -7x_1 + 2x_2 + 4x_3 &\geq -10 \\ 6x_1 - 3x_2 + 4x_3 &\geq 4 \\ 2x_1 + 5x_2 - 3x_3 &\geq 3 \\ -2x_1 - 5x_2 + 3x_3 &\geq -3 \\ x_1, x_2, x_3 &\geq 0 \end{aligned}$$

Dual

$$\text{Maximize } Z = 9y_1 + 5y_2 - 10y_3 + 4y_4 + 3y_5 - 3y_6$$

Subject to constraints

$$3y_1 + 2y_2 - 7y_3 + 6y_4 + 2y_5 - 2y_6 \leq 2$$

$$2y_1 + 3y_2 + 2y_3 - 3y_4 + 5y_5 - 5y_6 \leq -3$$

$$4y_1 + 2y_2 + 4y_3 + 4y_4 - 3y_5 + 3y_6 \leq 4$$

$$y_1, y_2, y_3, y_4, y_5, y_6 \geq 0$$

By substituting $y_5 - y_6 = y_7$ the dual can alternatively be expressed as:

Maximize $Z = 9y_1 + 5y_2 - 10y_3 + 4y_4 + 3y_7$

Subject to constraints

$$3y_1 + 2y_2 - 7y_3 + 6y_4 + 2y_7 \leq 2$$

$$-2y_1 - 3y_2 - 2y_3 + 3y_4 - 5y_7 \geq 3$$

$$4y_1 + 2y_2 + 4y_3 + 4y_4 - 3y_7 \leq 4$$

$$y_1, y_2, y_3, y_4 \geq 0, y_7 \text{ unrestricted in sign.}$$

13. Dummy machine (X_5) is inserted to make it a balanced cost matrix and assume its installation cost to be zero. Cost of install at cell X_3 (P) and X_2 (R) is very high marked as M.

	P	Q	R	S	T
X ₁	9	11	15	10	11
X ₂	12	9	M	10	9
X ₃	M	11	14	11	7
X ₄	14	8	12	7	8
X ₅ (Dummy)	0	0	0	0	0

Step 1

Subtract the minimum element of each row from each element of that row-

	P	Q	R	S	T
X ₁	0	2	6	1	2
X ₂	3	0	M	1	0
X ₃	M	4	7	4	0
X ₄	7	1	5	0	1
X ₅ (Dummy)	0	0	0	0	0

Step 2

Subtract the minimum element of each column from each element of that column-

	P	Q	R	S	T
X ₁	0	2	6	1	2
X ₂	3	0	M	1	0
X ₃	M	4	7	4	0
X ₄	7	1	5	0	1
X ₅ (Dummy)	0	0	0	0	0

Step 3

Draw lines to connect the zeros as under-

	P	Q	R	S	T
X ₁	0	2	6	1	2
X ₂	3	0	M	1	0
X ₃	M	4	7	4	0
X ₄	7	1	5	0	1
X ₅ (Dummy)	0	0	0	0	0

There are five lines which are equal to the order of the matrix. Hence the solution is optimal. We may proceed to make the assignment as under-

	P	Q	R	S	T
X ₁	0	2	6	1	2
X ₂	3	0	M	1	0
X ₃	M	4	7	4	0
X ₄	7	1	5	0	1
X ₅ (Dummy)	0	0	0	0	0

The following is the assignment which keeps the total cost at minimum-

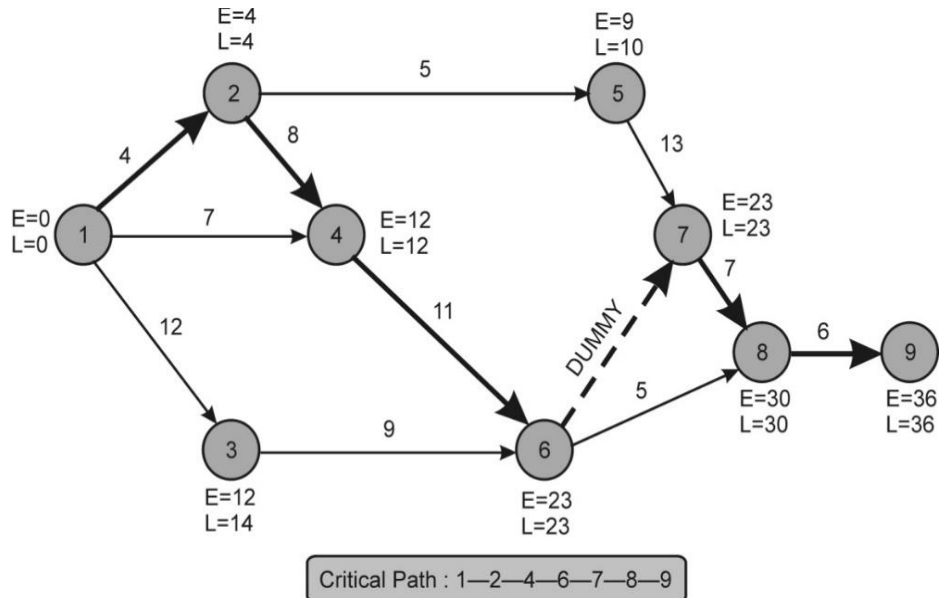
Machines	Location	Costs (₹)
X ₁	P	9
X ₂	Q	9
X ₃	T	7

X ₄	S	7
X ₅ (Dummy)	R	0
Total		32

14. (i) Calculation of **Missing Figures**:

Activity	Duration	EST	EFT	LST	LFT	Total Float
	D _{ij}	E _i	E _i + D _{ij}	L _j - D _{ij}	L _j	LST - EST
1-2	4	0	4	0	4	0
1-3	12	0	12	2	14	2
1-4	7	0	7	5	12	5
2-4	8	4	12	4	12	0
2-5	5	4	9	5	10	1
3-6	9	12	21	14	23	2
4-6	11	12	23	12	23	0
5-7	13	9	22	10	23	1
6-7	0	23	23	23	23	0
6-8	5	23	28	25	30	2
7-8	7	23	30	23	30	0
8-9	6	30	36	30	36	0

(ii) The **Network** for the given problem:



(iii) The **Various Paths** in the Network are:

1-2-4-6-7-8-9 with Duration 36 Days

1-2-5-7-8-9 with Duration 35 Days

1-3-6-7-8-9 with Duration 34 Days

1-2-4-6-8-9 with Duration 34 Days

1-3-6-8-9 with Duration 32 Days

1-4-6-7-8-9 with Duration 31 Days

1-4-6-8-9 with Duration 29 Days

(iv) The **Critical Path** is 1-2-4-6-7-8-9 with Duration 36 Days.

15. 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

16. Calculation of Total Labour Hours Over the Life Time of The Product 'W-9'

The average time per unit for 250 units

$$Y_x = ax^b$$

Or, $Y_{250} = 30 \times 250^{-0.3219}$

Or, $Y_{250} = 30 \times 0.1691$

Or, $Y_{250} = 5.073 \text{ hours}$

Total time for 250 units = $5.073 \times 250 \text{ units}$
 = 1,268.25 hours

The average time per unit for 249 units

$$Y_{249} = 30 \times 249^{-0.3219}$$

Or, $Y_{249} = 30 \times 0.1693$

Or, $Y_{249} = 5.079 \text{ hours}$

Total time for 249 units = $5.079 \times 249 \text{ units}$
 = 1,264.67 hours

Time for 250th unit = 1,268.25 hours – 1,264.67 hours
 = 3.58 hours

Total Time for 1,000 units = $(750 \times 3.58 \text{ hours}) + 1,268.25 \text{ hours}$
 = 3,953.25 hours

Profitability of the Product 'W-9'

Sales 1,000 Units

Particulars	Amount (₹)
Sales	50,00,000
Less: Direct Material	18,50,000
Direct Labour (3,953.25 hours × ₹ 80)	3,16,260
Variable Overheads (1,000 units × ₹ 1,000)	10,00,000
Contribution	18,33,740
Less: Packing Machine Cost	5,00,000
Profit	13,33,740

Average Target Labour Cost per unit

Particulars	Amount (₹)
Expected Sales Value	50,00,000
Less: Desired Profit (1,000 units × ₹ 800)	8,00,000
Target Cost	42,00,000
Less: Direct Material (1,000 units × ₹ 1,850)	18,50,000
Variable Cost (1,000 units × ₹ 1,000)	10,00,000
Packing Machine Cost	5,00,000
Target Labour Cost	8,50,000
Average Target Labour Cost per unit (₹ 8,50,000 ÷ 1,000 units)	850

17. (i)

Human Resource Cost	1. Number of employee
	2. Number of training Hours
	3. Number of benefit changes
	4. Number of insurance claims
	5. Number of pension changes
	6. Number of recruiting contacts

(ii)

Accounting Cost	1. Number of billings
	2. Number of cash receipts
	3. Number of check payments
	4. Number of general ledger entries
	5. Number of reports issued
	6. Number of responsibility centre

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. Some of the tasks performed in an organization XYZ Pvt. Ltd. are as follows:
 - I. Review the processes used by the IT organization to identify, assess, and monitor/mitigate risks within the IT environment.
 - II. Review how organization management and IT personnel are interacting and communicating current and future needs across the organization.
 - III. Assess the involvement of IT leadership in the development and on-going execution of the organization's strategic goals.
 - IV. Evaluate the physical IT Assets of the company in terms of hardware and software.You are appointed as an Internal Auditor to XYZ Pvt. Ltd. Which of the option highlight the activities that fall under your work preview while evaluating audit activities?
 - (a) I, II, III, IV
 - (b) I, II
 - (c) I and III
 - (d) I, II, III
2. Mr. B wants to invest some money for future but he has no idea where to invest and how much to invest. He is seeking help from a specialized system which is helping him to find answers of all queries such as how much money can be invested in portfolio and which securities would be better for him. Identify the specialized software system used in such situation.
 - (a) Expert System
 - (b) Knowledge System
 - (c) Financial System
 - (d) Core Banking System
3. A manufacturing company ABC recently made some changes in terms of checking for periodic performance reporting with variance, flaw in cash count and bank reconciliation and monitoring expenditure against budgeted amount. Which of the following control is used by company in this situation?

- (a) Compensatory control
 - (b) Corrective control
 - (c) Preventive control
 - (d) Detective Control
4. ABC is the manufacturing company having worth of ₹ 5000 million. While developing Business Continuity Plan, the company sets-up a committee for providing direction and guidance to the whole project team and responsible to make all the decisions related to recovery planning efforts. Which of the following phase of BCP the committee is working at?
- (a) Pre-planning Activities
 - (b) Vulnerability Assessment and general definition of requirement
 - (c) Plan development
 - (d) Business Impact Analysis
5. Choose the incorrect statement out of the following.
- (a) The Incremental model is a method of software development where the model is designed, implemented and tested incrementally until the product is finished.
 - (b) The steps involved in the preliminary investigation phase of SDLC are Identification of Problem, Identification of objectives, Delineation of scope, and Feasibility Study.
 - (c) Decision Tree, Flowchart, Data Flow Diagrams and Structured English are some of the widely-used Factfinding Tools under System Requirement Analysis sub phase of Preliminary investigation in SDLC.
 - (d) Operations Manual is a technical communication document intended to give assistance to people using a particular system and is usually written by technical writers.
6. XYZ is a bank that has association with two different service providers as their payment gateways. Mr. A is appointed as an auditor for XYZ bank. He is checking and auditing the details of online payments made by different users and third party customers. He is checking for material theft and unauthorized modification. Which type of risk he is working on?
- (a) Control Risk
 - (b) Detection Risk
 - (c) Online payment risk

- (d) Inherent risk
7. In Information Technology Act, 2000; Section 73 deals with _____.
- (a) Penalty for misinterpretation
 - (b) Penalty for breach of confidentiality and privacy
 - (c) Penalty for publishing electronic signature certificate false in certain particulars
 - (d) Protected system
8. The IT department of XYZ organization wants to make use of its infrastructure resources optimally within its boundaries by provisioning the infrastructure with application using concepts of grid and virtualization. Which of the following Cloud computing environment the organization is opting for?
- (a) Private Cloud
 - (b) Hybrid Cloud
 - (c) Public Cloud
 - (d) Community Cloud

DESCRIPTIVE QUESTIONS

Chapter 1: Concepts of Governance and Management of Information Systems

9. Define Corporate Governance and discuss its best practices.
10. You are appointed as a functional head of IT Department and are a member of IT Steering Committee also. The IT Steering Committee provides overall direction to deployment of IT and information systems in the enterprises. Discuss its key functions.

Chapter 2: Information System Concepts

11. You have sent an electronic mail (e-mail) to one of your friend who is a non-technical person. Through your email, you want to make him understand the features provided by e-mail. What would be the features of e-mail that you would highlight upon?
12. Nowadays; Financial, wholesaling and retailing and public sectors etc. are moving towards a real-time business model where transaction and information sharing are near instantaneous. What do you think are the impacts of Information Technology (IT) on Information Systems of these different sectors?

Chapter 3: Protection of Information Systems

13. Every organization maintains a document that describes its information security controls and activities. Identify the document and discuss it in detail.

14. Operations management is responsible for the daily running of hardware and software facilities in an organization. Discuss the different controls performed by Operations management on different functions.

Chapter 4: Business Continuity Planning and Disaster Recovery Planning

15. What do you understand by the term "Business Impact Analysis(BIA)"? Explain in detail.
16. Discuss the key areas that are emphasized upon in any Disaster Recovery Planning (DRP) document of an organization.

Chapter 5: Acquisition, Development and Implementation of Information Systems

17. "Achieving the objectives of the system development is essential but many times, such objectives are not achieved as desired". List down the various User-related and Developer-related issues that may arise and hinder in achieving the desired results.
18. Integration Testing is an activity of software testing under System Testing phase of System Development Life Cycle (SDLC) in which individual software modules are combined and tested as a group. Discuss the different techniques of Integration Testing.

Chapter 6: Auditing of Information Systems

19. Continuous auditing enables auditors to shift their focus from the traditional "transaction" audit to the "system and operations" audit for which an auditor uses continuous audit techniques to perform the audit. Discuss the advantages as well as limitations of continuous audit techniques.
20. Discuss the Audit Trails under Programming Management Controls of Managerial Controls.

Chapter 7: Information Technology Regulatory Issues

21. Describe the section of Information Technology Act, 2000 that defines the "Power to make rules by Central Government in respect of Electronic Signature".
22. Before proceeding with the audit, which type of the information an auditor is expected to obtain at the audit location?

Chapter 8: Emerging Technologies

23. You are supposed to make a presentation on the working of Mobile Computing. What will be the content of your presentation?
24. Any Bring Your Own Device (BYOD) program that allows access to corporate network, emails, client data etc.; is one of the top security concerns for enterprises. Discuss various risks associated with BYOD.

Questions based on Case Study

25. ABC is the coffee-house having its chain outlets in many countries with their main server residing in California, USA. Mr. A, is one of the regular client of the coffeehouse outlet in Gurugram, India who visits the outlet on daily basis. Being a regular customer, the outlet privileges Mr. A with a premium customer card that offers him 10% discount on every bill across globe.

One day, on Mr. A's visit to one of the coffee-house outlets in California, USA; he realises that the said premium card provided to him by the ABC coffee-house is invalid. On inquiring, he was made to understand that due to the earthquake in the city, the main server had been severely damaged and the link between their Information systems and the main Server has been suspended temporarily. The data residing on the main server was permanently lost as there was no back up policy that was adapted by the coffee-house.

- (a) Explain the various types of data back-ups that coffee-house should have taken up to prevent the loss of data.
- (b) ABC coffee-house wants to develop a software for the protection of its data of customer. The IT head of the company is under the process of testing of whole software. Discuss different testing techniques that IT head can adopt to test the software as whole.
- (c) The coffee-house decided to adapt cloud computing for future reference. Explain in detail the issues related to Implementation and adaption of Cloud Computing.

SUGGESTED ANSWERS/HINTS**MULTIPLE CHOICE ANSWERS**

1. (d) I, II, III
2. (a) Expert System
3. (d) Detective Control
4. (a) Pre-planning Activities
5. (c) Decision Tree, Flowchart, Data Flow Diagrams and Structured English are some of the widely-used Factfinding Tools under System Requirement Analysis sub phase of Preliminary investigation in SDLC.
6. (d) Inherent Risk

7. (c) Penalty for publishing electronic signature certificate false in certain particulars
8. (a) Private Cloud

DESCRIPTIVE ANSWERS

9. Corporate Governance has been defined as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. Some of the best practices of corporate governance include the following:
- Clear assignment of responsibilities and decision-making authorities, incorporating a hierarchy of required approvals from individuals to the Board of Directors;
 - Establishment of a mechanism for the interaction and cooperation among the board of directors, senior management and the auditors;
 - Implementing strong internal control systems, including internal and external audit functions, risk management functions independent of business lines, and other checks and balances;
 - Special monitoring of risk exposures where conflicts of interest are likely to be particularly great, including business relationships with borrowers affiliated with the bank, large shareholders, senior management, or key decision-makers within the firm (e.g. traders);
 - Financial and managerial incentives to act in an appropriate manner offered to senior management, business line management and employees in the form of compensation, promotion and other recognition; and
 - Appropriate information flows internally and to the public. For ensuring good corporate governance, the importance of overseeing the various aspects of the corporate functioning needs to be properly understood, appreciated and implemented.
10. The key functions of the IT Steering committee would include 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.
11. Various features of electronic mail (e-mail) are stated below:
- **Electronic Transmission**- The transmission of messages with email is electronic and message delivery is very quick, almost instantaneous. The confirmation of transmission is also quick and the reliability is very high.
 - **Online Development and Editing** - The email message can be developed and edited online before transmission. The online development and editing eliminates the need for use of paper in communication. It also facilitates the storage of messages on magnetic media, thereby reducing the space required to store the messages.
 - **Broadcasting and Rerouting** – e-mail permits sending a message to many target recipients. Thus, it is easy to send a circular to all branches of a bank using Email resulting in a lot of paper saving. The email could be rerouted to people having direct interest in the message with or without changing or and appending related information to the message.
 - **Integration with other Information Systems** - The e-mail has the advantage of being integrated with the other information systems. Such integration helps in ensuring that the message is accurate and the information required for the message is accessed quickly.
 - **Portability** – e-mail renders the physical location of the recipient and sender irrelevant. The email can be accessed from any Personal computer/tablet/smart phones equipped with the relevant communication hardware, software and link facilities.
 - **Economical** – The e-mail is one of the most economical mode for sending and receiving messages. Since the speed of transmission is increasing, the time cost on communication media per page is falling further, adding to the popularity of email. The email is proving to be very helpful not only for formal communication but also for informal communication within the enterprise.
12. The impact of Information Technology (IT) on Information Systems of different sectors is explained below:
- (i) **E-business** – This is also called electronic business and includes purchasing, selling, production management, logistics, communication, support services and inventory

management using internet technologies. The primary components of E-business are infrastructure (computers, routers, communication media e.g. wire, satellite etc., software and programmers), electronic commerce and electronically linked devices and computer aided networks. The advantages of E-business are - 24 hour sale, lower cost of doing business, more efficient business relationship, eliminate middlemen, unlimited market place and access with broaden customer base, secure payment systems, easier business administration and online fast updating. This is so because it does not require land for store or shops and anyone from anywhere can do business anytime as information regarding products etc. is available on the web. Only investment is needed in the purchase of space on internet, designing and maintenance of website. Different types of business can be done e.g. it may be B2B (Business to Business), B2C (Business to Customer), C2C (Customer to Customer) and C2B (Customer to Business). Because of no limitations of time and space, people prefer to involve in E-business. Thus, we can say that IT has given new definition to business.

- (ii) **Financial Service Sector** – The financial services sector (banks, building societies, life insurance companies and short term insurers) manages large amounts of data and processes enormous numbers of transactions every day. Owing to application of IT, all the major financial institutions operate nationally and have wide networks of regional offices and associated electronic networks. The associated substantial client databases are handled via large central mainframe systems that characterize the industry. IT has changed the working style of financial services and makes them easier and simpler for customers also. Now-a-days most of the services are offered by the financial services on internet, which can be accessed from anywhere and anytime that makes it more convenient to the customers. It also reduces their cost in terms of office staff and office building. It has been observed that automated and IT enabled service sectors reduces cost effectively. Through the use of internet and mobile phones; financial service sectors are in direct touch with their customers and with adequate databases it will be easier for service sectors to manage customer relationships. For example, through emails or SMS the customers can be made aware of launch of new policies; they can be informed on time the day of maturity of their policies etc.

In traditional banking system, the customer has to visit bank branch to deposit or withdraw money and get updated passbook from the respective counter. With the advancement of IT, the customer can do transactions by using internet banking, phone banking and the deposit or withdraw of money can also be done by using ATM (Automatic Teller Machine), internet or mobile banking. Banks also offers most of direct banking services free of charge to the customers. The customers can check

the status of their accounts in different banks by using of direct banking. Retail banking in India has assumed great importance recently with a number of retail banking products available to the consumer like real time account status, transfer of funds, bill payments and so on e.g. HDFC, SBI and ICICI are the banks in India that offer real time online transactions etc.

- (iii) **Wholesaling and Retailing** – Retail business uses IT to carry out basic functions including systems for selling items, capturing the sales data by item, stock control, buying, management reports, customer information and accounting. The laser scanners used in most grocery supermarkets and superstores to read product bar codes are among the most distinctive examples of modern computer technology. By using internet or mobile phones retailers can collect and exchange data between stores, distribution centres, suppliers and head offices.

IT can be used in wholesale for supply chain logistics management, planning, space management, purchasing, re-ordering, and analysis of promotions. Data mining and data warehousing applications helps in the analysis of market baskets, customer profiles and sales trends. E-commerce among partners (suppliers, wholesalers, retailers, distributors) helps in carrying out transactions.

- (iv) **Public sectors** – It includes services provided by the government mainly hospitals, police stations, universities etc. IT/IS can be used here, to keep records of the cases, respective people involved it, other related documents and can consult the existing data warehouse or databases to take appropriate actions. For example, IS like ERP can be implemented in a university to keep record of its employees in terms of their designation, leaves availed, department, achievements that can be used further in analysing their performance. Owing to application of IT and IS, it becomes easy to file FIR of a case without going to police station personally and also important documents like passports can be made easily by applying online.
- (v) **Others** – IT is efficiently used in entertainment industry (games, picture collection etc.), agriculture industry (information is just a mouse click away to the farmers), Tour industry (railway, hotel and airline reservations) and consultancy etc.

Thus, we can say that IT has changed the working style of business world drastically and make it simpler day-by-day with its advancement.

13. **An Information Security Policy** is a document that describes an organization's information security controls and activities. It is defined as the statement of intent by the management about how to protect a company's information assets. It is a formal statement of the rules, which give access to people to an organization's technology and information assets, and which they must abide.

- The policy does not specify technologies or specific solutions; it defines a specific set of intentions and conditions that help protect a company's information assets and its ability to conduct business. An Information Security Policy is the essential foundation for an effective and comprehensive information security program.
- It is the primary way in which management's information security concerns are translated into specific measurable and testable goals and objectives. It provides guidance to the people, who build, install, and maintain information systems. Information Security policy invariably includes rules intended to:
 - Preserve and protect information from any unauthorized modification, access or disclosure;
 - Limit or eliminate potential legal liability from employees or third parties; and
 - Prevent waste or inappropriate use of the resources of an organization.
- An information security policy should be in written form. It provides instructions to employees about "what kinds of behavior or resource usage are required and acceptable", and about "what is unacceptable".
- An Information Security policy also provides direction to all employees about how to protect organization's information assets, and instructions regarding acceptable (and unacceptable) practices and behavior.
- The policy does not need to be extremely extensive, but clearly state senior management's commitment to information security, be under change and version control and be signed by the appropriate senior manager. The policy should at least address the following issues:
 - a definition of information security,
 - reasons why information security is important to the organization, and its goals and principles,
 - a brief explanation of the security policies, principles, standards and compliance requirements,
 - definition of all relevant information security responsibilities; and
 - reference to supporting documentation.

The auditor should ensure that the policy is readily accessible to all employees and that all employees are aware of its existence and understand its contents.

14. Operations management is responsible for the daily running of hardware and software facilities. Operations management typically performs controls over the functions as below:
- (a) **Computer Operations:** The controls over computer operations govern the activities that directly support the day-to-day execution of either test or production systems on

the hardware/software platform available. Three types of controls fall under this category:

- **Operation controls:** These controls prescribe the functions that either human operators or automated operations facilities must perform.
 - **Scheduling controls:** These controls prescribe how jobs are to be scheduled on a hardware/software platform.
 - **Maintenance controls:** These controls prescribe how hardware is to be maintained in good operating order.
- (b) **Network Operations:** This includes the proper functioning of network operations and monitoring the performance of network communication channels, network devices, and network programs and files. Data may be lost or corrupted through component failure. The primary components in the communication sub-systems are given as follows:
- Communication lines viz. twisted pair, coaxial cables, fiber optics, microwave and satellite etc.
 - **Hardware** – ports, modems, multiplexers, switches and concentrators etc.
 - **Software** – Packet switching software, polling software, data compression software etc.
 - Due to component failure, transmission between sender and receiver may be disrupted, destroyed or corrupted in the communication system.
- (c) **Data Preparation and Entry:** Irrespective of whether the data is obtained indirectly from source documents or directly from, say, customers, keyboard environments and facilities should be designed to promote speed and accuracy and to maintain the well-being of keyboard operators.
- (d) **Production Control:** This includes the major functions like- receipt and dispatch of input and output; job scheduling; management of service-level agreements with users; transfer pricing/charge-out control; and acquisition of computer consumables.
- (e) **File Library:** This includes the management of an organization's machine-readable storage media like magnetic tapes, cartridges, and optical disks.
- (f) **Documentation and Program Library:** This involves that documentation librarians ensure that documentation is stored securely; that only authorized personnel gain access to documentation; that documentation is kept up-to-date and that adequate backup exists for documentation. The documentation may include reporting of responsibility and authority of each function; Definition of responsibilities and

objectives of each functions; Reporting responsibility and authority of each function; Policies and procedures; Job descriptions and Segregation of duties.

- (g) **Help Desk/Technical support:** This assists end-users to employ end-user hardware and software such as micro-computers, spreadsheet packages, database management packages etc. and provide the technical support for production systems by assisting with problem resolution.
- (h) **Capacity Planning and Performance Monitoring:** Regular performance monitoring facilitates the capacity planning wherein the resource deficiencies must be identified well in time so that they can be made available when they are needed.
- (i) **Management of Outsourced Operations:** This has the responsibility for carrying out day-to-day monitoring of the outsourcing contract.

15. **Business Impact Analysis (BIA)** is essentially a means of systematically assessing the potential impacts resulting from various events or incidents. The process of BIA determines and documents the impact of a disruption of the activities that support its key products and services. It enables the business continuity team to identify critical systems, processes and functions, assess the economic impact of incidents and disasters that result in a denial of access to the system, services and facilities, and assess the "pain threshold," that is, the length of time business units can survive without access to the system, services and facilities. For each activity supporting the delivery of key products and services within the scope of its BCM program, the enterprise should:

- assess the impacts that would occur if the activity was disrupted over a period of time;
- identify the maximum time period after the start of a disruption within which the activity needs to be resumed;
- Identify critical business processes;
- assess the minimum level at which the activity needs to be performed on its resumption;
- identify the length of time within which normal levels of operation need to be resumed; and
- identify any inter-dependent activities, assets, supporting infrastructure or resources that have also to be maintained continuously or recovered over time.

The enterprise should have a documented approach to conduct BIA. The enterprise should document its approach to assessing the impact of disruption and its findings and conclusions. The BIA Report should be presented to the Top Management. This report identifies critical service functions and the time frame in which they must be recovered after interruption. The BIA Report should then be used as a basis for identifying systems

and resources required to support the critical services provided by information processing and other services and facilities. Developing the BCP also takes into account the BIA process.

16. The Disaster Recovery Planning (DRP) document may include the following areas:
- The conditions for activating the plans, which describe the process to be followed before each plan, are activated.
 - Emergency procedures, which describe the actions to be taken following an incident which jeopardizes business operations and/or human life. This should include arrangements for public relations management and for effective liaisoning with appropriate public authorities e.g. police, fire, services and local government.
 - Fall-back procedures, which describe the actions to be taken to move essential business activities or support services to alternate temporary locations, to bring business process back into operation in the required time-scale.
 - Resumption procedures, which describe the actions to be taken to return to normal business operations.
 - A maintenance schedule, which specifies, how and when the plan will be tested", and the process for maintaining the plan.
 - Awareness and education activities, which are designed to create an understanding of the business continuity, process and ensure that the business continues to be effective.
 - The responsibilities of individuals describing who is responsible for executing which component of the plan. Alternatives should be nominated as required.
 - Contingency plan document distribution list.
 - Detailed description of the purpose and scope of the plan.
 - Contingency plan testing and recovery procedure.
 - List of vendors doing business with the organization, their contact numbers and address for emergency purposes.
 - Checklist for inventory taking and updating the contingency plan on a regular basis.
 - List of phone numbers of employees in the event of an emergency.
 - Emergency phone list for fire, police, hardware, software, suppliers, customers, back-up location, etc.
 - Medical procedure to be followed in case of injury.
 - Back-up location contractual agreement, correspondences.
 - Insurance papers and claim forms.

- Primary computer center hardware, software, peripheral equipment and software configuration.
- Location of data and program files, data dictionary, documentation manuals, source and object codes and back-up media.
- Alternate manual procedures to be followed such as preparation of invoices.
- Names of employees trained for emergency situation, first aid and life saving techniques.
- Details of airlines, hotels and transport arrangements.

17. Various User-related and Developer-related issues are as follows:

User Related Issues: It refers to those issues where user/customer is reckoned as the primary agent. Some of the aspects with regard to this problem are mentioned as follows:

- **Shifting User Needs:** User requirements for IT are constantly changing. As these changes accelerate, there will be more requests for Information systems development and more development projects. When these changes occur during a development process, the development team faces the challenge of developing systems whose very purpose might change since the development process began.
- **Resistance to Change:** People have a natural tendency to resist change, and information systems development projects signal changes - often radical - in the workplace. When personnel perceive that the project will result in personnel cutbacks, threatened personnel will dig in their heels, and the development project is doomed to failure.
- **Lack of Users' Participation:** Users must participate in the development efforts to define their requirements, feel ownership for project success, and work to resolve development problems. User participation also helps to reduce user resistance to change.
- **Inadequate Testing and User Training:** New systems must be tested before installation to determine that they operate correctly. Users must be trained to effectively utilize the new system.

Developer Related Issues: It refers to the issues and challenges regarding the developers. Some of the critical bottlenecks are mentioned as follows:

- **Lack of Standard Project Management and System Development Methodologies:** Some organizations do not formalize their project management and system development methodologies, thereby making it very difficult to consistently complete projects on time or within budget.
- **Overworked or Under-Trained Development Staff:** In many cases, system developers **often** lack sufficient educational background and requisite state of the art

skills. Furthermore, many companies do a little to help their development personnel stay technically sound, and more so a training plan and training budget do not exist.

18. Integration testing is an activity of software testing in which individual software modules are combined and tested as a group. It occurs after unit testing and before system testing with an objective to evaluate the validity of connection of two or more components that pass information from one area to another. Integration testing takes as its input modules that have been unit tested, groups them in larger aggregates, applies tests defined in an integration test plan to those aggregates, and delivers as its output the integrated system ready for system testing. This is carried out in the following two manners:

- **Bottom-up Integration:** It is the traditional strategy used to integrate the components of a software system into a functioning whole. It consists of unit testing, followed by sub-system testing, and then testing of the entire system. Bottom-up testing is easy to implement as at the time of module testing, tested subordinate modules are available. The disadvantage, however is that testing of major decision / control points is deferred to a later period.
- **Top-down Integration:** It starts with the main routine, and stubs are substituted, for the modules directly subordinate to the main module. An incomplete portion of a program code that is put under a function to allow the function and the program to be compiled and tested, is referred to as a stub. A stub does not go into the details of implementing details of the function or the program being executed.

Once the main module testing is complete, stubs are substituted with real modules one by one, and these modules are tested with stubs. This process continues till the atomic modules are reached. Since decision-making processes are likely to occur in the higher levels of program hierarchy, the top-down strategy emphasizes on major control decision points encountered in the earlier stages of a process and detects any error in these processes. The difficulty arises in the top-down method, because the high-level modules are tested, not with real outputs from subordinate modules, but from stubs.

19. Some of the advantages of continuous audit techniques are given as under:
- **Timely, Comprehensive and Detailed Auditing** - Evidence would be available more timely and in a comprehensive manner. The entire processing can be evaluated and analyzed rather than examining the inputs and the outputs only.
 - **Surprise test capability** - As evidences are collected from the system itself by using continuous audit techniques, auditors can gather evidence without the systems staff and application system users being aware that evidence is being collected at that particular moment. This brings in the surprise test advantages.

- **Information to system staff on meeting of objectives** - Continuous audit techniques provides information to systems staff regarding the test vehicle to be used in evaluating whether an application system meets the objectives of asset safeguarding, data integrity, effectiveness, and efficiency.
- **Training for new users** - Using the ITFs, new users can submit data to the application system, and obtain feedback on any mistakes they make via the system's error reports.

The following are some limitations of the use of the continuous audit techniques:

- Auditors should be able to obtain resources required from the organization to support development, implementation, operation, and maintenance of continuous audit techniques.
 - Continuous audit techniques are more likely to be used if auditors are involved in the development work associated with a new application system.
 - Auditors need the knowledge and experience of working with computer systems to be able to use continuous audit techniques effectively and efficiently.
 - Continuous auditing techniques are more likely to be used where the audit trail is less visible and the costs of errors and irregularities are high.
20. Audit Trails under Programming Management Controls of Managerial Controls are as follows:
- (a) **Planning**
 - They should evaluate whether the nature of and extent of planning are appropriate to the different types of software that are developed or acquired.
 - They must evaluate how well the planning work is being undertaken.
 - (b) **Control**
 - They must evaluate whether the nature of and extent of control activities undertaken are appropriate for the different types of software that are developed or acquired.
 - They must gather evidence on whether the control procedures are operating reliably. For example - they might first choose a sample of past and current software development and acquisition projects carried out at different locations in the organization they are auditing.
 - (c) **Design**
 - Auditors should find out whether programmers use some type of systematic approach to design.

- Auditors can obtain evidence of the design practices used by undertaking interviews, observations, and reviews of documentation.

(d) Coding

- Auditors should seek evidence –
 - On the level of care exercised by programming management in choosing a module implementation and integration strategy.
 - To determine whether programming management ensures that programmers follow structured programming conventions.
 - To check whether programmers employ automated facilities to assist them with their coding work.

(e) Testing

- Auditors can use interviews, observations, and examination of documentation to evaluate how well unit testing is conducted. Auditors are most likely concerned primarily with the quality of integration testing work carried out by information systems professionals rather than end users.
- Auditor's primary concern is to see that whole-of-program tests have been undertaken for all material programs and that these tests have been well-designed and executed.

(f) Operation and Maintenance

- Auditors need to ensure effectively and timely reporting of maintenance needs occurs and maintenance is carried out in a well-controlled manner.
- Auditors should ensure that management has implemented a review system and assigned responsibility for monitoring the status of operational programs.

21. Section 10 of the Information Technology Act, 2000 defines the Power to make rules by Central Government in respect of Electronic Signature.

[Section 10] Power to make rules by Central Government in respect of Electronic Signature

The Central Government may, for the purposes of this Act, by rules, prescribe

- (a) the type of Electronic Signature;
- (b) the manner and format in which the Electronic Signature shall be affixed;
- (c) the manner or procedure which facilitates identification of the person affixing the Electronic Signature;

- (d) control processes and procedures to ensure adequate integrity, security and confidentiality of electronic records or payments; and
- (e) any other matter which is necessary to give legal effect to Electronic Signature.
22. Before proceeding with the audit, the auditor is expected to obtain the following information at the audit location:
- Location(s) from where Investment activity is conducted.
 - IT Applications used to manage the Insurer's Investment Portfolio.
 - Obtain the system layout of the IT and network infrastructure including: Server details, database details, type of network connectivity, firewalls other facilities/ utilities (describe).
 - Are systems and applications hosted at a central location or hosted at different office?
 - Previous Audit reports and open issues / details of unresolved issues from:
 - Internal Audit,
 - Statutory Audit, and
 - IRDA Inspection / Audit.
 - Internal circulars and guidelines of the Insurer.
 - Standard Operating Procedures (SOP).
 - List of new Products/funds introduced during the period under review along with Insurance Regulatory and Development Authority of India (IRDA) approvals for the same.
 - Scrip wise lists of all investments, fund wise, classified as per IRDA Guidelines, held on date.
 - IRDA Correspondence files, circulars and notifications issued by IRDA.
 - IT Security Policy.
 - Business Continuity Plans.
 - Network Security Reports pertaining to IT Assets.
23. The working of Mobile Computing is as follows:
- The user enters or access data using the application on handheld computing device.
 - Using one of several connecting technologies, the new data are transmitted from handheld device to site's information system where files are updated and the new data are accessible to other system user.

- Now both systems (handheld and site's computer) have the same information and are in sync.
- The process work the same way starting from the other direction.

The process is similar to the way a worker's desktop PC access the organization's applications, except that user's device is not physically connected to the organization's system. The communication between the user device and site's information systems uses different methods for transferring and synchronizing data, some involving the use of Radio Frequency (RF) technology.

24. Every business decision is accompanied with a set of threats and so is BYOD program too; it is not immune from them. As outlined in the Gartner survey, a BYOD program that allows access to corporate network, emails, client data etc. is one of the top security concerns for enterprises. Overall, these risks can be classified into four areas as outlined below:

- **Network Risks:** It is normally exemplified and hidden in "Lack of Device Visibility". When company-owned devices are used by all employees within an organization, the organization's IT practice has complete visibility of the devices connected to the network. This helps to analyze traffic and data exchanged over the Internet. As BYOD permits employees to carry their own devices (smart phones, laptops for business use), the IT practice team is unaware about the number of devices being connected to the network. As network visibility is of high importance, this lack of visibility can be hazardous. For example, if a virus hits the network and all the devices connected to the network need be scanned, it is probable that some of the devices would miss out on this routine scan operation. In addition to this, the network security lines become blurred when BYOD is implemented.
- **Device Risks:** It is normally exemplified and hidden in "Loss of Devices". A lost or stolen device can result in an enormous financial and reputational embarrassment to an organization as the device may hold sensitive corporate information. Data lost from stolen or lost devices ranks as the top security threats as per the rankings released by Cloud Security Alliance. With easy access to company emails as well as corporate intranet, company trade secrets can be easily retrieved from a misplaced device.
- **Application Risks:** It is normally exemplified and hidden in "Application Viruses and Malware". A related report revealed that most employees' phones and smart devices that were connected to the corporate network weren't protected by security software. With an increase in mobile usage, mobile vulnerabilities have increased concurrently. Organizations are not clear in deciding that "who is responsible for device security – the organization or the user".
- **Implementation Risks:** It is normally exemplified and hidden in "Weak BYOD Policy". The effective implementation of the BYOD program should not only cover the technical issues mentioned above but also mandate the development of a robust

implementation policy. Because corporate knowledge and data are key assets of an organization, the absence of a strong BYOD policy would fail to communicate employee expectations, thereby increasing the chances of device misuse. In addition to this, a weak policy fails to educate the user, thereby increasing vulnerability to the above-mentioned threats.

25. (a) Various types of data back-ups are as follows:
- (i) **Full Backup:** A Full Backup captures all files on the disk or within the folder selected for backup. With a full backup system, every backup generation contains every file in the backup set. At each backup run, all files designated in the backup job will be backed up again. This includes files and folders that have not changed. It is commonly used as an initial or first backup followed with subsequent incremental or differential backups. After several incremental or differential backups, it is common to start over with a fresh full backup again. Some also like to do full backups for all backup runs typically for smaller folders or projects that do not occupy too much storage space. The Windows operating system lets us to copy a full backup on several DVD disks. Any good backup plan has at least one full backup of a server.
 - (ii) **Incremental Backup:** An Incremental Backup captures files that were created or changed since the last backup, regardless of backup type. The last backup can be a full backup or simply the last incremental backup. With incremental backups, one full backup is done first and subsequent backup runs are just the changed files and new files added since the last backup.
 - (iii) **Differential Backup:** Differential backups fall in the middle between full backups and incremental backup. A Differential Backup stores files that have changed since the last full backup. With differential backups, one full backup is done first and subsequent backup runs are the changes made since the last full backup. Therefore, if a file is changed after the previous full backup, a differential backup takes less time to complete than a full backup. Comparing with full backup, differential backup is obviously faster and more economical in using the backup space, as only the files that have changed since the last full backup are saved. Restoring from a differential backup is a two-step operation: Restoring from the last full backup; and then restoring the appropriate differential backup. The downside to using differential backup is that each differential backup probably includes files that were already included in earlier differential backups.
 - (iv) **Mirror back-up:** Mirror backups are, as the name suggests, a mirror of the source being backed up. With mirror backups, when a file in the source is deleted, that file is eventually also deleted in the mirror backup. Because of this, mirror backups should be used with caution as a file that is deleted by accident, sabotage or through a virus may also cause that same file in mirror to be deleted as well. Some do not consider a mirror to be a backup. Further, a mirror backup

is identical to a full backup, with the exception that the files are not compressed in zip files and they cannot be protected with a password. A mirror backup is most frequently used to create an exact copy of the backup data.

- (b) **System Testing:** It is a process in which software and other system elements are tested as a whole. System testing begins either when the software as a whole is operational or when the well-defined subsets of the software's functionality have been implemented. The purpose of system testing is to ensure that the new or modified system functions properly. These test procedures are often performed in a non-production test environment. The types of testing that might be carried out are as follows:
- **Recovery Testing:** This is the activity of testing „how well the application is able to recover from crashes, hardware failures and other similar problems“. Recovery testing is the forced failure of the software in a variety of ways to verify that recovery is liable to be properly performed, in actual failures.
 - **Security Testing:** This is the process to determine that an Information System protects data and maintains functionality as intended or not. The six basic security concepts that need to be covered by security testing are – confidentiality, integrity, availability authentication, authorization, and non-repudiation. This testing technique also ensures the existence and proper execution of access controls in the new system.
 - **Stress or Volume Testing:** Stress testing is a form of testing that is used to determine the stability of a given system or entity. It involves testing beyond normal operational capacity, often to a breaking point, in order to observe the results. Stress testing may be performed by testing the application with large quantity of data during peak hours to test its performance.
 - **Performance Testing:** In the computer industry, software performance testing is used to determine the speed or effectiveness of a computer, network, software program or device. This testing technique compares the new system's performance with that of similar systems using well defined benchmarks.
- (c) Some of the well-identified implementation issues of Cloud Computing are as follows:
- **Threshold Policy:** In order to test if the program works, develops, or improves and implements; a threshold policy is of immense importance in a pilot study before moving the program to the production environment. This involves the checking how the policy enables to detect sudden increases in the demand and results in the creation of additional instances to fill in the demand. Moreover, to determine how unused resources are to be de-allocated and turned over to other work needs to work out in the context. That is working out thresholds is really a matter of concern and would go a long way to assure the effectiveness. Let's suppose, we had a program that did credit card validation in the cloud, and we

hit the crunch for the buying season. Higher demand would be detected and more instances would be created to fill that demand. As we moved out of the buying crunch, the need would be diminished and the instances of those resources would be de-allocated and put to other use.

- **Interoperability:** If a company outsources or creates applications with one cloud computing vendor, the company may find it difficult to change to another computing vendor that has proprietary Application Programming Interfaces (APIs) and different formats for importing and exporting data. This creates problems of achieving interoperability of applications between two cloud computing vendors. We may need to reformat/reorganize data or change the logic in applications. Although industry cloud computing standards do not exist for APIs or data import/export, IBM and Amazon Web Services have worked together to make interoperability happen.
- **Hidden Costs:** Like any such services in prevailing business systems, cloud computing service providers do not reveal “what hidden costs are”. For instance, companies could incur higher network charges from their service providers for storage and database applications containing terabytes of data in the cloud. This outweighs costs they could save on new infrastructure, training new personnel, or licensing new software. In another instance of incurring network costs, companies, who are far from the location of cloud providers, could experience latency, particularly when there is heavy traffic.
- **Unexpected Behavior:** It is important to test the application in the cloud with a pilot study to check for unexpected behavior. Examples of tests include how the application validates credit cards, and how, in the scenario of the buying crunch, it allocates resources and releases unused resources, turning them over to other work. If the tests show unexpected results of credit card validation or releasing unused resources, we will need to fix the problem before executing or obtaining cloud services from the cloud. Instead of waiting for an outage to occur, consumers should do security testing on their own checking how well a vendor can recover data. Apart from the common testing practices, what one needs primarily to do is to ask for old stored data and check how long it takes for the vendor to recover. Another area of security testing is to test a trusted algorithm to encrypt the data on the local computer, and then try to access data on a remote server in the cloud using the decryption keys. If we can't read the data once we have accessed it, the decryption keys are corrupted, or the vendor is using its own encryption algorithm. We may need to address the algorithm with the vendor. Another issue is the potential for problems with data in the cloud. To protect the data, one may want to manage his/her own private keys. Checking with the vendor on the private key management is no longer a simple as it appears so.

- **Software Development in Cloud:** To develop software using high-end databases, the most likely choice is to use cloud server pools at the internal data corporate center and extend resources temporarily for testing purposes. This allows project managers to control costs, manage security and allocate resources to clouds for a project. The project managers can also assign individual hardware resources to different cloud types: Web development cloud, testing cloud, and production cloud. The cost associated with each cloud type may differ from one another. The cost per hour or usage with the development cloud is most likely lower than the production cloud, as additional features, such as Service-Level Agreements (SLA) and security, are allocated to the production cloud. The managers can limit projects to certain clouds. For instance, services from portions of the production cloud can be used for the production configuration. Services from the development cloud can be used for development purpose only. To optimize assets at varying stages of the project of software development, the managers can get cost-accounting data by tracking usage by project and user.
- **Environment Friendly Cloud Computing:** One incentive for cloud computing is that it may be more environment friendly. First, reducing the number of hardware components needed to run applications on the company's internal data center and replacing them with cloud computing systems reduces energy for running and cooling hardware. By consolidating these systems in remote centers, they can be handled more efficiently as a group.

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 30th April, 2019 are applicable for November, 2019 examination. The relevant assessment year for November, 2019 examination is A.Y.2019-20. The significant notifications/circulars issued upto 30th April, 2019, relevant for November, 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 4: Salaries

Notified limit for exemption in respect of gratuity increased, in case of employees not covered under the Payment of Gratuity Act, 1972 [Notification No. 16 /2019, dated 08.03.2019]

As per section 10(10)(iii), in case of an employee not covered under the Payment of Gratuity Act, 1972, any gratuity received by an employee on his retirement or his becoming incapacitated prior to such retirement or on termination of his employment or any gratuity received by his widow, children or dependents on his death is exempt from tax to the extent of least of the following limits:

- (i) One-half month's salary for each year of completed service
- (ii) Actual gratuity received
- (iii) Specified limit (i.e., limit notified by the Central Government)

The Central Government, having regard to the maximum amount of any gratuity payable to employees, has specified ₹20 lakh as the limit for the purposes of section 10(10)(iii) in relation to the employees who retire or become incapacitated prior to such retirement or die on or after 29th March, 2018 or whose employment is terminated on or after the said date. In effect, the Central Government has, vide this notification, increased the specified limit from ₹10 lakhs to ₹20 lakh with effect from 29.03.2018.

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/rules/income-tax-rules-1962.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–	
		(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.		
(b)	Where transaction for acquisition of existing listed equity share in a company is not entered through a recognised stock exchange in India	Following acquisitions of listed equity share in a company made in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956:	
		(i)	acquisition through an issue of share by a company other than through preferential the issue referred to in (a);
		(ii)	acquisition by scheduled banks, reconstruction or securitisation companies or public financial institutions during their ordinary course of business;
		(iii)	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;
(iv)	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;
		(v)	acquisition by any non-resident in accordance with foreign direct investment guidelines of the Government of India;
		(vi)	acquisition in accordance with Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulation, 2011;
		(vi)	acquisition from the Government;
		(vii)	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;
		(ix)	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) (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;	
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Chapter 8: Income from Other Sources

Notification of company for the purposes of exemption under clause (ii) of the proviso to section 56(2)(viib) [Notification No. 13/2019, dated 5-03-2019]

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, *inter alia*, 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. 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 for issue of shares that exceeds the face value of such shares, if the said consideration received from a person, being a resident, by a company which fulfills the conditions specified by the Ministry of Commerce and Industry in the Department for Promotion of Industry and Internal Trade and files the declaration referred to in the said notification. In effect, vide this notification, the Central Government has notified the conditions to be fulfilled by a company which issues shares rather than the class or classes of persons to whom such shares are issued.

The Ministry of Commerce and Industry in the Department for Promotion of Industry and Internal Trade has, vide Notification No. G.S.R. 127(E) dated 19.2.2019, specified in para 4 thereunder, that a startup shall be eligible for exemption under clause (ii) of the proviso to section 56(2)(viib), if it fulfills the following conditions:

- (i) It has been recognized by the Department for Promotion of Industry and Internal Trade as start up as per this notification or any earlier notification on the subject.

- (ii) Aggregate amount of paid up capital and share premium of the startup after issue or proposed issue of shares, if any, does not exceed, twenty five crore rupees.

However, in computing the aggregate amount of paid up share capital, the amount of paid up share capital and share premium of twenty five crore rupees in respect of shares issued to any of the following persons shall not be included:

- (a) a non-resident
- (b) a venture capital company or a venture capital fund

Further, consideration received by such startup for shares issued or proposed to be issued to a specified company shall also be exempt and shall not be included in computing the aggregate amount of paid up share capital and share premium of twenty five crore rupees. For this purpose, a specified company means a company whose shares are frequently traded within the meaning of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and whose net worth on the last date of financial year preceding the year in which shares are issued exceeds one hundred crore rupees or turnover for the financial year preceding the year in which shares are issued exceeds two hundred fifty crore rupees.

- (iii) It has not invested in any of the following assets –
- (a) building or land appurtenant thereto, being a residential house, other than that used by the Startup for the purposes of renting or held by it as stock-in-trade, in the ordinary course of business;
 - (b) land or building, or both, not being a residential house, other than that occupied by the Startup for its business or used by it for purposes of renting or held by it as stock-in-trade, in the ordinary course of business;
 - (c) loans and advances, other than loans or advances extended in the ordinary course of business by the Startup where the lending of money is substantial part of its business;
 - (d) capital contribution made to any other entity;
 - (e) shares and securities;
 - (f) a motor vehicle, aircraft, yacht or any other mode of transport, the actual cost of which exceeds ten lakh rupees, other than that held by the Startup for the purpose of plying, hiring, leasing or as stock-in-trade, in the ordinary course of business;
 - (g) jewellery other than that held by the Startup as stock-in-trade in the ordinary course of business;

- (h) any other asset, whether in the nature of capital asset or otherwise, of the nature specified in section 56(2)(vi)(d)(iv) to (ix) i.e., archaeological collections, drawings, paintings, sculptures, any work of art or bullion.

However, the Startup should not invest in any of the assets mentioned above for the period of seven years from the end of the latest financial year in which shares are issued at premium;

Meaning of Startup:

A company would be considered as Startup if the following conditions are satisfied:

- (i) **Period** – It would be considered as a Startup upto a period of ten years from the date of incorporation/registration, if it is incorporated as a private limited company (as defined in the Companies Act, 2013) in India.
- (ii) **Turnover limit** - Turnover of the company for any of the financial years since incorporation/registration has not exceeded one hundred crore rupees.
- (iii) **Object and Purposes** - The company is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

However, a private limited company shall not be considered a “Startup”, if it formed by splitting up or reconstruction of an existing business.

This notification shall be deemed to have come into effect from 19.02.2019.

Note – Accordingly, students are advised to ignore Notifications No. 45/2016 dated 14.6.2016 and the related paras in page 8.10 of Module 1 of the Study Material and instead, read this notification.

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.

No tax to be deducted at source under section 194A, in case of Senior Citizens if the aggregate amount of interest does not exceed ₹50,000 [Notification No. 6/2018, dated 6-12-2018]

Section 194A requires deduction of tax at source on interest other than interest on securities. However, section 194A(3) provides for exemption from this requirement where such interest credited or paid or likely to be credited or paid during the Financial Year does not exceed ₹10,000 and the payer is a banking company, co-operative society engaged in banking business or post office. In case of a senior citizen (being a resident), however, a higher threshold of ₹50,000 has been specified for non-deduction of tax at source in such cases.

Accordingly, as per the third proviso to section 194A(3), no tax is required to be deducted at source in the case of senior citizens where the amount of interest or the aggregate of the amount of interest credited or paid during the financial year by a banking company, co-operative society engaged in banking business or post office does not exceed ₹50,000. However, it has come to the notice of the CBDT, that, some tax deductors/banks are making tax deductions even when the amount of interest does not exceed ₹50,000.

Under Rule 31A(5) of the Income-tax Rules, 1962, the DGIT (Systems) is authorized to specify the procedures, formats and standards for the purposes of furnishing and verification of the statements or claim for refund and shall be responsible for the day-to-day administration in relation to furnishing and verification of the statements or claim for refund in the manner so specified.

Accordingly, the Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), clarified that no tax deduction at source under section 194A shall be made in the case of senior citizens where the amount of such income or the aggregate of the amounts of such income credited or paid during the financial year does not exceed ₹50,000.

Housing and Urban Development Corporation Ltd. (HUDCO), New Delhi notified for the purpose of section 194A(3)(iii)(f) [Notification No. 26/2019, dated 20.03.2019]

Section 194A(3)(iii)(f) provides that no tax is required to be deducted on interest income paid or credited to such other institution, association or body or class of institutions, associations, or bodies which is notified by the Central Government. Accordingly, the Central Government has, vide this notification, notified the Housing and Urban Development Corporation Ltd.(HUDCO), New Delhi for the purpose of the said section.

Consequent to such notification, no tax need to be deducted at source from interest other than interest on securities credited or paid to HUDCO.

Chapter 17: Assessment Procedure

Time limit for making an application for allotment of PAN in respect of certain persons [Notification No. 82/2018, dated 19-11-2018]

Section 139A(1) lists out the persons, who have not allotted PAN, to apply to the Assessing Officer for allotment of PAN within such time, as may be prescribed. The time limit for making such application is prescribed in Rule 114(3).

The Finance Act, 2018 has expanded the list of persons covered under section 139A(1) to include the persons mentioned in (iv) & (v) in column (2) of the table below, who have not been allotted a PAN, to apply to the Assessing Officer for allotment of PAN. Accordingly, Rule 114(3) has been amended *vide* this notification to provide the time limit (indicated in column (3) of the table below) for such persons to apply to the Assessing Officer for allotment of PAN.

The table below contains the list of persons mentioned in section 139A(1), who have not been allotted PAN, to apply for PAN and the time limit for making such application in each such case.

(1)	(2)	(3)
	Persons required to apply for PAN	Time limit for making such application
(i)	Every person, if his total income or the total income of any other person in respect of which he is assessable under the Act during any previous year exceeds the maximum amount which is not chargeable to income-tax	on or before 31st May of the assessment year for which such income is assessable
(ii)	Every person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakhs in any previous year	before the end of that financial year (previous year).
(iii)	Every person who is required to furnish a return of income under section 139(4A)	before the end of the financial year (previous year).

(iv)	Every person being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year	on or before 31 st May of the immediately following financial year
(v)	Every person who is a managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of any person referred in (iv) above or any person competent to act on behalf of such person referred in (iv) above	on or before 31 st May of the immediately following financial year in which the person referred in (iv) enters into financial transaction specified therein.

Quoting of Aadhaar Number mandatory in returns filed on or after 1.4.2019 [Circular No. 6/2019 dated 31.03.2019]

As per section 139AA(1)(ii), with effect from 01.07.2017, every person who is eligible to obtain Aadhaar number has to quote Aadhaar number in the return of income.

The Apex Court in a series of judgments has upheld the validity of section 139AA. Consequently, with effect from 01.04.2019, the CBDT clarified that it is mandatory to quote Aadhaar number while filing the return of income unless specifically exempted as per any notification issued under section 139AA(3). Thus, returns being filed either electronically or manually on or after 1.4.2019 cannot be filed without quoting the Aadhaar number.

Time limit for intimation of Aadhaar Number to Prescribed Authority [Notification No. 31/2019, dated 31.03.2019]

Section 139AA(2) provides that every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before a date as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification, notified that every person who has been allotted permanent account number as on 1st July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to the Principal DGIT (Systems) or Principal Director of Income-tax (Systems) by 30th September, 2019.

This notification would, however, not be applicable to those persons or such class of persons or any State or part of any State who/which are/is specifically excluded under section 139AA(3).

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.

Chapter 22: Liability in Special Cases**Clarification regarding liability and status of Official Assignees under the Income-tax Act, 1961 [Circular No. 4/2019, dated 28-01-2019]**

Under provisions of the Presidency Towns Insolvency Act, 1909 and the Provincial Insolvency Act, 1920, where an order of Insolvency is passed against a debtor by the concerned Court, property of the debtor gets vested with the Court appointed Official Assignee. The Official Assignee then realizes property of the insolvent and allocates it amongst the creditors of the insolvent. Consequentially, Official Assignee has the responsibility to handle income-tax matters of the estate assigned to him.

In this regard, a clarification has been sought regarding applicability of section 160(1)(iii) which applies on a 'Representative Assessee' in the case of an Official Assignee. Further, clarity regarding status of the Official Assignee's i.e. their fallibility in the appropriate category of 'persons', as defined in section 2(31), has also been sought.

As per provisions of section 160(1)(iii), a 'Representative Assessee' amongst other situations specified therein, becomes liable in respect of any income which the Assignee receives or is entitled to receive while managing the property for benefit of any person. As per the two insolvency Acts, Official Assignee manages the property of the debtor for the benefit of the creditors. Further, the Insolvency Act, 1909, in unambiguous terms, provides that an insolvent ceases to have an ownership interest in the estate once an order of adjudication is made under section 17 of the Insolvency Act.

Thus, it is clarified by the CBDT that since Official Assignee does not receive the income or manage the property on behalf of the debtor, they cannot be considered as a 'Representative Assessee' of the debtor under the Act while computing the tax-liability arising from the estate of the debtor.

As property of the insolvent is vested with the Official Assignee as per specific provisions of the Act/Law regulating functioning of the Official Assignee's, they have to be treated as a 'juristic entity' for purposes of the Income-tax Act. Hence, it is clarified by the CBDT that for purpose of discharge of tax-liability under the Act, the status of Official Assignees is that of an 'artificial juridical person' as prescribed in section 2(31)(vii), not being one of the 'persons' falling in section 2(31)(i) to (vi).

Therefore, Official Assignee is required to file income-tax return electronically in the ITR Form applicable to 'artificial juridical person' separately for each of the estate of the insolvent and the income shall be taxed as per the rates applicable in a particular year to an 'artificial juridical person'.

In view of the above position, Official Assignees would have to obtain a separate PAN for each of the estate of the insolvent.

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	<p><u>If the foreign company is assessed to tax in the foreign jurisdiction</u></p> <p>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 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</p>

	<p>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>
<p>Brought forward loss and unabsorbed depreciation</p>	<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>
<p>Period of profit and loss account and balance sheet in cases where accounting year of foreign company does not end on 31st March</p>	<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 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 XVI-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> <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.</p>
<p>Availability of deduction under</p>	<p>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</p>

section 90 or 91 (Foreign tax credit)	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.
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	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.
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 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.

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.

Conditions under section 115JG(1) in respect of conversion of Indian branch of foreign bank into Indian subsidiary company and specification of holding period of a capital asset which becomes the property of the Indian subsidiary company in consequence of such conversion notified [Notification No. 85 & 86/2018, dated 6-12-2018]

Chapter XII-BB comprises of section 115JG which contains "Special provisions relating to conversion of Indian branch of a foreign bank into a subsidiary Indian company". Section 115JG *inter-alia* provides that, in case the conversion of an Indian Branch of foreign bank into a subsidiary Indian company in accordance with the scheme framed by Reserve Bank of India and fulfilling the conditions notified by the Central Government, the capital gains arising from such conversion shall not be chargeable to tax and the provisions of the Income-tax Act, 1961 relating to unabsorbed depreciation, set off or carry forward and set off of losses, tax credit in respect of tax paid on deemed income relating to certain company and the computation of income in case of foreign company and Indian subsidiary company would apply with such modification, exception and adaptation as may be specified in the notification.

Accordingly, the Central Government has, *vide* notification no. 85/2018, specified the conditions to be fulfilled –

(1) For Capital Gains exemption:

Where a foreign company is engaged in the business of banking through its Indian branch and converts such Indian branch into its Indian subsidiary company in accordance with the scheme framed by RBI, the capital gains arising from such conversion would not be chargeable to tax, if -

- (a) the Indian branch amalgamates with the Indian subsidiary company in accordance with the scheme of amalgamation approved by the shareholders of the foreign company and the Indian subsidiary company and sanctioned by the RBI¹
- (b) all the assets and liabilities of the Indian branch immediately before conversion would become the assets and liabilities of the Indian subsidiary company;
- (c) the assets and liabilities of the Indian branch are transferred to the Indian subsidiary company at values appearing in the books of account of the Indian branch immediately before its conversion.

Note - Any change in the value of assets consequent to their revaluation would not be considered while determining the value of the assets.

- (d) the foreign bank or its nominee shall hold the whole of the share capital of the Indian subsidiary company during the period beginning from the date of conversion and ending on the last day of the previous year in which the conversion took place and continue to hold the shares of Indian subsidiary company carrying not less than 51% of the voting power for a period of five years immediately succeeding the said previous year;
- (e) the foreign company does not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the Indian subsidiary company.

(2) Application of the provisions of the Income-tax Act, 1961 with modifications/exceptions

The provisions of the Income-tax Act, 1961 relating to unabsorbed depreciation, set off or carry forward and set off of losses, tax credit in respect of tax paid on deemed income relating to certain companies and the computation of income in case of foreign company and Indian subsidiary company shall apply with following modifications, exceptions and adaptation –

¹ under paragraph 20(h) of the Framework for setting up of wholly owned subsidiaries by foreign banks in India issued by the Reserve Bank of India *vide* Press release number 2013-2014/936 dated 6th day of November, 2013

	Purpose	Modification/exception/adaptation
(a)	Allowance of depreciation under section 32	The aggregate deduction, in respect of depreciation on buildings, machinery, plant or furniture, being tangible assets, or know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets, allowable to the Indian branch and the Indian subsidiary company shall not exceed in any previous year the deduction calculated at the prescribed rates as if the conversion had not taken place. Such deduction would be apportioned between the Indian branch and the Indian subsidiary company in the ratio of the number of days for which the assets were used by them;
(b)	Set-off and c/f of loss and depreciation	The accumulated loss and the unabsorbed depreciation of the Indian branch would be deemed to be the loss or allowance for depreciation of the Indian subsidiary company for the previous year in which conversion was effected; and provisions of the Income-tax Act, 1961, relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.
(c)	Determination of actual cost u/s 43(1)	The actual cost of the block of assets in the case of the Indian subsidiary company shall be the written down value of the block of assets as in the case of the Indian branch on the date of its conversion into the Indian subsidiary company The actual cost of any capital asset on which deduction has been allowed or is allowable under section 35AD, shall be treated as 'nil' in the case of the Indian subsidiary company if the capital asset became the property of the Indian subsidiary company as a result of conversion of the Indian branch
(d)	Cost of acquisition of other capital assets	Where the capital asset other than those referred to in (c) above became the property of the Indian subsidiary company as a result of conversion of the Indian branch, the cost of acquisition of the asset for the purposes of computation of capital gains shall be deemed to be the cost for which the Indian branch acquired it or, as the case may be, the cost for which previous owner has acquired it.
(e)	Tax credit	The tax credit of the Indian branch shall be deemed to be the tax credit of the Indian subsidiary company for the purpose of the previous year in which conversion was effected; and the provisions of section 115JAA of the Income-tax Act, 1961 shall apply accordingly.
(f)	Amortisation of VRS	The provisions of 35DDA of the Act shall be, as far as may be, apply to the Indian subsidiary company, as they would have

	Expenditure	applied to the Indian branch, if the conversion had not taken place
(g)	Deemed credit balance in provision for bad and doubtful debts	The credit balance in the provision for bad and doubtful debts account made under section 36(1)(via) of the Indian branch on the date of conversion shall be deemed to be the credit balance of the Indian subsidiary company and the provisions of section 36 of the Income-tax Act, 1961, shall apply accordingly
(h)	Non-applicability of section 56(2)(x)	The provisions of section 56(2)(x) shall not apply to the transaction of receipt of shares in the Indian subsidiary company by the foreign company or its nominee in consequence of the conversion of the Indian branch into the Indian subsidiary company.

Meaning of certain terms (given in bold in the above table):

Term	Meaning
Accumulated loss	So much of the loss of the Indian branch before its conversion into Indian subsidiary company under the head "Profits and gains of business or profession" (not being a loss sustained in a speculation business) which such Indian branch would have been entitled to carry forward and set off under the provisions of section 72, if the conversion had not taken place.
Unabsorbed depreciation	So much of the allowance for depreciation of the Indian branch before its conversion into Indian subsidiary company, which remains to be allowed and which would have been allowed to the Indian branch under the provisions of the Act, if the conversion had not taken place.
Previous owner	In relation to any capital asset owned by the Indian subsidiary company means the last previous owner of the capital asset who acquired it by a mode of acquisition other than those referred in section 49(1)(i)/(ii)/(iii)/(iv) or section 115JG(1).
Tax credit	So much of the tax credit of the Indian branch before conversion into Indian subsidiary company which such Indian branch would have been entitled to carry forward and set off under the provisions of section 115JAA of the Act, if the conversion had not taken place.
Date of conversion	The date, which the Reserve Bank of India appoints for the vesting of undertaking of the Indian branch in Indian subsidiary company ²

² under paragraph 20(i) of the Framework for setting up of wholly owned subsidiaries by foreign banks in India issued by the Reserve Bank of India vide press release number 2013-2014/936 dated 6th day of November, 2013.

Further, the CBDT has, vide Notification No. 86/2018, inserted sub-rule (4) in rule 8AA providing for method of determination of period of holding of capital assets in certain cases. This sub-rule provides that, in the case of a capital asset which became the property of the Indian subsidiary company in consequence to conversion of a branch of a foreign company referred to in section 115JG(1), the period for which the asset was held by the said branch of the foreign company and by the previous owner, if any, who has acquired the capital asset by a mode of acquisition referred to in clause (i)/(ii)/(iii)/(iv) of section 49(1) or section 115JG(1) shall be included.

Chapter 3: Transfer Pricing & Other Anti-avoidance Measures

Time limit for furnishing of report by constituent entity of an international group, resident in India specified [Notification No. 88/2018 dated 18-12-2018, Circular No. 9/2018 dated 26-12-2018 and Circular No. 7/2019 dated 08-04-2019]

I. Requirement of furnishing of report by constituent entity of an international group, resident in India [Section 286(4)]

As per section 286(4), a constituent entity of an international group, resident in India, other than the parent company or the alternate reporting entity, is required to furnish a report in respect of the international group for a reporting accounting year **within the prescribed period**, if the parent entity is resident of a country or territory –

- (i) where the parent entity is not obligated to file the report of the nature referred to in section 286(2).
- (ii) with which India does not have an agreement providing for exchange of the report of the nature referred to in section 286(2)
- (iii) there has been a systemic failure of the country or territory and the said failure has been intimated by the prescribed authority to such constituent entity.

II. Time limit for furnishing of report by constituent entity [Notification No. 88/2018 dated 18-12-2018 -Rule 10DB(4)]

The CBDT has, accordingly, amended Rule 10DB(4) vide Notification no. 88/2018 to provide that the constituent entity is required to furnish the report under section 286(4) within twelve months from the end of the reporting accounting year. However, in case the parent entity of the constituent entity is resident of a country or territory, where, there has been a systemic failure of the country or territory and the said failure has been intimated to such constituent entity, the period for submission of the report would be six months from the end of the month in which said systemic failure has been intimated.

III. Relaxation in time limit for report to be furnished under section 286(4) in respect of reporting accounting years ending upto 28.2.2018 [Circular No. 9/2018 dated 26-12-2018]

Representations from the stakeholders were received by the CBDT in the matter, wherein it has been stated, *inter alia*, that the constituent entity of an international group, which is resident in India, having parent entity resident in jurisdictions with which India does not have an agreement providing for exchange of the report of the nature referred to in section 286(2) and where the reporting accounting year is calendar year based, i.e., ending on December 31 of the year, would need to furnish the report under section 286(4) in India by 31.12.2018. It has also been represented that read with the amendment to section 286 and the substituted rule 10DB(4), the constituent entity in such case for reporting accounting year ending on 31.3.2017 would have been required to furnish the CbCR by 31.3.2018 which is not plausible.

In order to remove the genuine hardship caused as above in furnishing of the report under section 286(4) read with Rule 10DB(4) and as a one-time measure, the CBDT has, in exercise of powers conferred under section 119 extended the period for furnishing of said report by the constituent entities referred to in (i) and (ii) of I. above in respect of reporting accounting years ending upto 28.2.2018 to 31.3.2019.

IV Relaxation in time limit for constituent entities, whose parent entities are resident in USA [Circular No. 7/2019 dated 08-04-2019]

The agreement for providing for exchange of the report of the nature referred to in section 286(2) has been entered into by India and the USA on March 27, 2019. However, the agreement and the exchange mechanism would come into effect only after both the countries notify each other about the completion of all internal procedures for exchange which is underway.

Since filing of the report by the constituent entity referred to in section 286(4) [(i) and (ii) of I. above] in India gets triggered on completion of twelve months from the last date of the reporting accounting year and Circular 9/2018 has extended the period for furnishing of the report till March 31, 2019 in respect of reporting accounting years ending upto February 28, 2018, due to non-notification of the agreement and resultant non-activation of the exchange mechanism between India and the USA, said report has to be filed by such constituent entities, whose parent entities are resident in USA and whose reporting accounting years ended after February 28, 2018.

In view of the above, in order to remove the genuine hardship faced by the constituent entities referred to in (i) and (ii) of I. above, whose parent entities are resident in USA, in furnishing of the report under section 286(4) read with rule 10DB(4), the CBDT has extended the period for furnishing of said report by such constituent entities, in respect of reporting accounting years ending upto April 29, 2018, to April 30, 2019.

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) X Ltd. is engaged in the business of letting out of properties. As per the memorandum of association of X Ltd., letting out of properties is its main objective. The total income of X Ltd. comprises only of rental income from the business of letting out of properties. Y Ltd. is engaged in the construction and sale of properties, which is also its main objective as per its memorandum of association. Incidentally, it lets out some properties which are held as stock-in-trade and earns rental income therefrom. Which of the following statements are correct?
- (a) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head “Income from house property”
- (b) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head “Profits and gains of business or profession”
- (c) Rental income from letting out of properties by X Ltd. is taxable under the head “Income from house property” and by Y Ltd is taxable under the head “Profits and gains of business or profession”
- (d) Rental income from letting out of properties by Y Ltd. is taxable under the head “Income from house property” and X Ltd is taxable under the head “Profits and gains of business or profession”
- (ii) PQ Ltd. is a company having two units – Unit P carries on specified business of setting up and operating warehousing facility for storage of agricultural produce and Unit Q carries on specified business of setting up and operating warehousing facility for storage of edible oil. Unit P commenced operations on 1.4.2017 and claimed deduction of ₹120 lakhs incurred in April, 2017 on purchase of two buildings for ₹70 lakhs and ₹50 lakhs (for operating warehousing facility for storage of agricultural produce) under section 35AD for A.Y.2018-19. However, in March, 2019, Unit P transferred its building costing ₹70 lakhs to Unit Q. What are the tax implications of such transfer in the hands of PQ Ltd.?
- (i) ₹70 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2019-20
- (ii) ₹63 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2019-20
- (iii) Actual cost of building for computing depreciation for P.Y.2018-19 would be ₹70 lakhs

(iv) Actual cost of building for computing depreciation for P.Y.2018-19 would be ₹63 lakhs

Which of the above statements are correct?

- (a) (i) and (iii) above
 - (b) (i) and (iv) above
 - (c) (ii) and (iii) above
 - (d) (ii) and (iv) above.
- (iii) XYZ Ltd. engaged in the business of manufacture of steel, claimed deduction under section 80-IB on the profits and gains of business which included transport subsidy, interest subsidy and power subsidy received from the Government and duty drawback receipts. XYZ Ltd. contended that all the above receipts are profits derived from the business of the industrial undertaking and are hence, eligible for deduction under section 80-IB. Is the contention of XYZ Ltd. correct?
- (a) Yes; transport subsidy, interest subsidy, power subsidy and duty drawback are profits derived from the business of the industrial undertaking and hence, eligible for deduction under section 80-IB.
 - (b) No; none of the above receipts can be treated as profits "derived" from the business of the industrial undertaking and hence, deduction under section 80-IB cannot be claimed in respect of any such receipt.
 - (c) No; transport subsidy, interest subsidy and power subsidy received from Government are profits derived from the business of the industrial undertaking and hence, eligible for deduction under section 80-IB. However, duty drawbacks belong to the category of ancillary profits and hence, deduction under section 80-IB cannot be claimed in respect of such receipt.
 - (d) No; transport subsidy, interest subsidy and power subsidy received from Government are ancillary profits and hence, deduction under section 80-IB cannot be claimed in respect of such receipts. However, duty drawbacks are profits derived from the business of the industrial undertaking and hence, deduction under section 80-IB can be claimed in respect of such receipt.
- (iv) A REIT has distributed ₹2 crore to its unitholders, which comprises of -
- (i) Rental income from real estate property directly held by it ₹80 lakhs
 - (ii) Interest income from special purpose vehicle ₹50 lakhs
 - (iii) Dividend income from special purpose vehicle ₹40 lakhs
 - (iv) Capital gains on disposal of assets ₹30 lakhs

In this case, the special purpose vehicle is an Indian company, in which REIT holds 100% of shares. Which of the following statements relating to taxability of the above income are correct?

- (1) All the above income are taxable in the hands of REIT . The said income are exempt in the hands of unit holders.
- (2) Only income referred to in (i) and (ii) are taxable in the hands of REIT . Income referred to in (iii) and (iv) are taxable in the hands of unit holders.
- (3) Only income referred to in (i) and (ii) are taxable in the hands of REIT . Income referred to in (iv) is taxable in the hands of unit holders. Income referred to in (iii) is exempt both in the hands of REIT and unitholders.
- (4) Only income referred to in (iv) is taxable in the hands of REIT . Income referred to in (i) and (ii) is taxable in the hands of unit holders. Income referred to in (iii) is exempt both in the hands of REIT and unitholders.
- (5) Tax is deductible by REIT from income referred to in (i) and (ii).
- (6) Tax is deductible by REIT from income referred to in (iii) and (iv).
- (7) Tax is deductible by REIT only from income referred to in (iv)
- (8) No tax is deductible by REIT since the entire income is taxable in its hands.

The correct option is –

- (a) (1) and (8) above
 - (b) (2) and (6) above
 - (c) (3) and (7) above
 - (d) (4) and (5) above
- (v) During the P.Y.2018-19, HelpAid Charitable Trust registered under section 12AA received donations of ₹80 lakhs, out of which ₹10 lakhs were corpus donations and ₹20 lakhs were anonymous donations. The trust applied ₹40 lakhs towards its objects during the P.Y.2018-19. The tax liability of the trust for A.Y.2019-20 is -
- (a) ₹6,24,000
 - (b) ₹5,92,800
 - (c) ₹5,30,920
 - (d) ₹5,97,220
- (vi) In the course of search operations under section 132 in May, 2019, Mr. Hari makes a declaration under section 132(4) on the earning of income in respect of P.Y.2018-19 not disclosed in the books of account. Mr. Hari explains the manner in which income was derived and pays the tax, together with interest in respect of such income. However, he

does not disclose such income in his return of income filed on 31.7.2019. Is penalty leviable in this case, and if so what is the quantum of penalty?

- (a) No penalty is leviable since Mr. Hari has made a declaration under section 132(4)
 - (b) Penalty@10% is leviable
 - (c) Penalty@30% is leviable
 - (d) Penalty@60% is leviable.
- (vii) A Ltd. filed its return of income for A.Y.2019-20 on 30th September, 2019. The return is selected for regular assessment under section 143(3). The time limit for service of notice under section 143(2) in this case is -
- (a) 31.3.2020
 - (b) 30.6.2020
 - (c) 30.9.2020
 - (d) 31.3.2021
- (viii) Shipcargo Inc., a company based in Netherlands operating its ships to and fro Cochin port, collected freight of ₹85 lakhs, demurrage of ₹5 lakhs and handling charges of ₹2 lakhs in respect of goods shipped at Cochin port. It incurred expenses of ₹35 lakhs during the year for operating its fleet. In respect of goods shipped at Rotterdam, Netherlands, it received ₹50 lakhs in India. Its tax liability (rounded off) for the A.Y.2019-20 is -
- (a) ₹4,21,200
 - (b) ₹4,43,040
 - (c) ₹3,12,000
 - (d) ₹1,77,840
- (ix) Mr. Ganesh, a citizen of India, is employed in the Indian embassy in the USA. He is a non-resident for A.Y.2019-20. He received salary and allowances in the USA from the Government of India for the year ended 31.3.2019 for services rendered by him in the USA. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?
- (a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ganesh, since he is a non-resident.
 - (b) Salary, allowances and perquisites received outside India by Mr. Ganesh is taxable in India since they are deemed to accrue or arise in India.
 - (c) Salary received by Mr. Ganesh is taxable in India but allowances and perquisites are exempt.

- (d) Salary received by Mr. Ganesh is exempt but allowances and perquisites are taxable.
- (x) Mr. Rajesh, a resident Indian, is an employee of M/s. ABC Ltd., Bangalore. In addition to the salary income from M/s. ABC Ltd., he also earns interest from fixed deposits. M/s. PQR Inc., a foreign company not having permanent establishment in India, rendered online advertisement services to Mr. Rajesh, for which Mr. Rajesh made a payment of ₹2 lakhs in the F.Y.2018-19. Which of the statements is correct?
- (a) The transaction is subject to equalisation levy since payment exceeding ₹1 lakh has been made for online advertisement services by a resident to a non-resident not having permanent establishment in India.
- (b) Equalisation levy@6% has to be deducted from the consideration of ₹2 lakhs payable to M/s. PQR Inc.
- (c) Both (a) and (b)
- (d) The transaction is not subject to equalisation levy

DESCRIPTIVE QUESTIONS

1. PQR Ltd. is a company in which the whole of its share capital was held by LMN Ltd. Both PQR Ltd. and LMN Ltd. are Indian companies. PQR Ltd. had made investment in shares of Berkley Ltd. in 1992 for ₹ 7,00,000 which it sold to LMN Ltd. on April 1, 2010 for a consideration of ₹ 42,00,000.
- The fair market value of these shares of Berkley Ltd., as on April 1, 2001 is ₹ 32,00,000. LMN Ltd. disinvested 7% of the shares held by it in PQR Ltd., in November 2018 by sale to public. It sold the shares in Berkley Ltd. acquired by it from PQR Ltd. in February, 2019 for a sum of ₹ 95,00,000.
- Examine the capital gains tax effect of these transactions in the hands of PQR Ltd. and LMN Ltd. in the relevant assessment years, presuming that the shares of Berkley Ltd. are unlisted shares.
- The cost inflation index for the F.Y.2010-11 is 167 and F.Y.2018-19 is 280.
2. Ms. Janani reports to you that her gross receipt from interior decoration profession carried on by her during the year ended 31-03-2019 is ₹ 47,80,000. Her net income as per income and expenditure account is ₹ 25,00,000 before adjustment of depreciation of ₹ 1,50,000. She did not pay any amount by way of advance tax during the financial year 2018-19. She has two residential house properties, of which one is self-occupied for residence and another is let out for the monthly rent of ₹ 15,000 during the financial year 2018-19.
- Is Janani eligible to opt for presumptive tax provisions, if any, under the Income-tax Act, 1961? If so, is it beneficial for her to opt for such provisions? Advise, assuming that she approached you for consulting on this matter in April, 2019.

3. Calculate the 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 following cases:
- (i) Mr. Ravi purchased 500 shares in Tapti Ltd. on 15.11.2016 at a cost of ₹1,200 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹2,300. Ravi sold all the shares of Tapti Ltd. on 15.5.2018 for ₹3,000.
 - (ii) Mr. Giri purchased 700 shares in Narmada Ltd. on 3.12.2016 at a cost of ₹3,100 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹4,500. Mr. Giri sold all the shares of Narmada Ltd. on 24.4.2018 for ₹4,200.
 - (iii) Mr. Mani purchased 300 shares in Cauvery Ltd. on 12.1.2017 at a cost of ₹2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹1,800. Mr. Mani sold all the shares of Cauvery Ltd. on 15.7.2018 for ₹3,200.
 - (iv) Mr. Sathy purchased 600 shares in Mahanadi Ltd. on 25.1.2017 at a cost of ₹1,900 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹2,400. Mr. Sathy sold all the shares of Mahanadi Ltd. on 31.1.2019 for ₹1,700.
4. PQR Ltd. is engaged in the manufacture of multi-layer tubes and other speciality packaging and plastic products. It came out with an initial public issue of shares during the year 2017-18 and deposited the share application money received in banks till the allotment of shares was completed. The company earned interest of ₹75 lakhs on such deposits, which it set off against the public issue expenses, while computing total income for A.Y.2018-19. Accordingly, the company paid the tax on total income, after adjusting tax deducted at source and advance tax paid, and filed its return of income in September, 2018. On scrutiny, the Assessing Officer contended that interest of ₹75 lakhs is not eligible for set-off against public issue expenses but is taxable under the head 'Income from Other Sources'. Examine the correctness of contention of the Assessing Officer.
5. ABC Ltd. has approached the Supreme Court under a special leave petition. There has been a delay of 439 days in filing the appeal under section 260A for which reason ABC Ltd. requested for a condonation of delay under section 14 of Limitation Act, 1963. The company submitted that the delay was on account of pursuing an alternate remedy of filing a miscellaneous application before the Income-tax Appellate Tribunal (ITAT) under section 254(2).
- From the above facts, examine whether delay in filing appeal under section 260A can be condoned under section 14 of Limitation Act, 1963 where the stated reason for delay is the pursuance of an alternate remedy by way of filing an application before the ITAT under section 254(2) for rectification of mistake apparent on record.
6. (a) HelpAll charitable trust, having its main object as relief of poor, earned agricultural income of ₹ 2.80 lakh, dividend income of ₹ 1.10 lakh and income of ₹ 1.30 lakh from mutual funds specified under section 10(23D) during the P.Y.2018-19.

The trust claims exemption under section 10(1), 10(34) and 10(35) in respect of its agricultural income, dividend income and income from mutual funds, respectively, without complying with the conditions laid down under section 11. Examine the correctness or otherwise of the claim of the trust.

- (b) HistoSpace charitable trust, having its main object as preservation of monuments of historic interest, purchased computers for ₹ 12 lakh in March, 2018 for the purposes of the trust and claimed the same as application of income in the P.Y.2017-18. It also claims depreciation @ 40% on such computers for P.Y.2018-19, while computing income for the purpose of application for that year. Examine the correctness or otherwise of the claim of the trust.
7. Sigma Ltd., incorporated on 1.4.2017, is a technology enabled eligible start-up engaged in innovation of processes. The company filed its return of income for A.Y.2019-20 after claiming deduction of ₹ 18 lakhs under section 80-IAC. The return was selected for scrutiny. In the assessment, a sum of ₹ 7 lakhs, being 30% of ₹ 21 lakhs, towards payment of fees for professional services was disallowed for non-deduction of tax at source by invoking section 40(a)(ia). The Assessing Officer, however, limited the deduction under section 80-IAC to the original amount claimed by Sigma Ltd. Sigma Ltd. contended that it was eligible for a higher deduction of ₹ 25 lakhs under section 80-IAC consequent to disallowance under section 40(a)(ia). Examine the correctness of contention of Sigma Ltd.
8. Satpura Ltd. is an Indian company in which 52% of shares are held by Vindhya Ltd. Satpura Ltd. declared a dividend amounting to ₹ 60 lakhs to its shareholders for the financial year 2017-18 in its Annual General Meeting held on 29th May, 2018. Dividend distribution tax was paid by Satpura Ltd. on 5th June, 2018. Vindhya Ltd. declared an interim dividend amounting to ₹ 48 lakhs on 2nd December, 2018.
- Compute the amount of tax on dividend payable by Vindhya Ltd., an Indian company. Would your answer change if Vindhya Ltd. held 48% of shares of Satpura Ltd? Examine.
9. The following are the details pertaining to M/s. Aravali, a partnership firm, for the year ended 31-3-2019:
- (i) Gross total income of ₹ 600 lakhs, which includes a profit of ₹ 550 lakhs from an undertaking engaged in an irrigation project.
 - (ii) The profits of the undertaking are eligible for deduction under section 80-IA. This is the third year and the deduction available is ₹ 510 lakhs.
 - (iii) The firm has undertaken "specified domestic transactions" referred to in section 92BA during the said year and has to obtain a report from an accountant under section 92E and furnish such report.

Since M/s. Aravali wishes to seek opinion of tax consultants in relation to certain issues before filing its return of income, it is planning to file its return of income only in the month of March, 2020. Advise M/s. Aravali the right course of action. You may ignore interest under section 234A, 234B, 234C and 234F while making your computations in support of your advice.

10. Godavari Ltd., an Indian Company engaged in manufacture and sale of electrical appliances in India and abroad, started adoption of Ind AS with effect from 1st April, 2017. The following particulars are furnished for the year ended 31st March, 2019:-

- (a) The book profit after adjustment of all items specified in section 115JB(2) amounted to ₹ 87.34 lakhs (except the adjustment for brought forward losses/ unabsorbed depreciation), for the year ended 31.3.2019.

- (b) Brought forward losses as per books are as under : (₹ In lakhs)

Financial Year	Business loss	Depreciation
2016-17	8.20	7.60
2017-18	7.30	9.50

- (c) The particulars of "Other Comprehensive Income" for the year ended 31.03.2019:

(₹ In lakhs)

Other Comprehensive Income (OCI) that will not be re-classified to profit and loss:		Debit	Credit
(i)	Deferred costs of hedging	3.80	
(ii)	Changes in fair values of equity instruments	8.00	
(iii)	Revaluation surplus for assets		8.20
(iv)	Deferred gains on cash flow hedges		6.70
(v)	Re-measurement of post-employment benefit obligations		5.20
(vi)	Share of other comprehensive income of other associates		2.80
Other Comprehensive Income (OCI) that may be re-classified to profit and loss:		Debit	Credit
(i)	Deferred gains on cash flow hedges		8.20
(ii)	Comprehensive income from discontinued operations		5.30
(iii)	Exchange Differences of foreign exchange operations	1.80	
(iv)	Deferred costs of hedging	0.80	

- (d) The transition amount as on convergence date (01-04-2017) stood at ₹ 48 lakhs (credit balance) including capital reserve of ₹ 6 lakhs and adjustment of ₹ 5 lakhs relating to translation difference in a foreign operation.
- (e) The National Company Law Tribunal (NCLT), Mumbai Bench has admitted an application under section 7 of Insolvency and Bankruptcy Code, 2016 (IBC) made by financial creditor against the company for initiation of Corporate Insolvency Resolution Process on 30th March, 2019.

You are required to compute the MAT liability for the assessment year 2019-20, applying the provisions relating to Ind AS compliant companies. Assuming that the income tax under normal provisions of Income-tax Act, 1961 for the assessment year 2019-20 works out to ₹ 13.20 lakhs, compute the tax credit, if any, to be carried forward by the company including the period up to which it will be available to be carried forward.

11. M/s. Uranus LLP filed its return of income for the AY. 2016-17 on 23-07-2016. The assessment u/s 143(3) was completed on 27th April, 2017. The Assessing Officer made two additions to the income of the LLP, namely, ₹ 12 lakhs towards unexplained investment u/s 69 and ₹ 4 lakhs u/s 40(b) due to excess interest paid to partners.

The LLP, being aggrieved, contested the addition of ₹ 12 lakhs under section 69 and filed an appeal before the Commissioner (Appeals). The appeal was decided on 12th February, 2019 against the LLP.

In March, 2019, the LLP approaches you to know whether it should apply for revision to Principal Commissioner u/s 264 or for rectification u/s 154 to the Assessing Officer as regards disallowance u/s 40(b). You are required to advise the LLP, keeping in mind the relevant provisions of income-tax law.

12. M/s. Pluto LLP filed its return of income for A.Y.2019-20, declaring total income of ₹25 lakhs, on 2nd October, 2019. On processing of return, the total income determined under section 143(1)(a) was ₹30 lakhs, after disallowing claim for deduction under section 10AA on account of late furnishing of return of income. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and passed an assessment order under section 143(3) assessing total income of ₹40 lakhs. Later on, the Assessing Officer noticed that certain income had escaped assessment and issued notice for reassessment under section 148. The total income reassessed under section 147 was ₹45 lakhs.

Considering that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under section 270A(6), compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment under section 143(3) and at the time of reassessment under section 147 (Assume under-reporting of income is not on account of misreporting).

13. Neptune Inc, a notified Foreign Institutional Investor (FII), derived the following incomes for the financial year 2018-19:-

- (1) Interest received on investment in Rupee Denominated Bonds of ABC Ltd., an Indian company (investment was made in the F.Y.2017-18) - ₹8,50,000
- (2) Dividend from listed shares of Indian companies – ₹6,20,000
- (3) Interest on securities – ₹17,32,000 (Expenses of ₹ 26,000 has been incurred to earn such income)
- (4) **Income from sale of securities and shares:**

- (i) **Bonds of Jupiter Ltd.**

[Date of purchase 5 May 2015; Date of sale 7 March 2019]

Sale proceeds : ₹ 47,00,000

Cost of purchase : ₹ 32,00,000

Cost Inflation Index: F.Y.2015-16:254; F.Y.2018-19:280

- (ii) **Listed Shares of Earth Ltd.**

[Date of purchase – 2 May, 2018; Date of sale – 9 February, 2019]

Sale Consideration ₹ 12,40,000

Purchase cost ₹ 7,80,000

[STT paid both at the time of purchase and sale]

- (iii) **Unlisted equity shares of Mars Ltd.**

[Date of purchase – 1 July, 2018; Date of sale – 7 March, 2019]

Sale Consideration ₹ 8,40,000

Purchase cost ₹ 3,72,000

Compute the total income and tax liability of the FII, Neptune Inc., for the A.Y. 2019-20, assuming that no other income is derived by Neptune Inc. during the F.Y.2018-19.

14. Examine the following transactions and discuss whether the transfer price declared by the following assessee, who have exercised a valid option for application of safe harbour rules, can be accepted by Income-tax authorities –
 - (i) Mercury Ltd., an Indian company, provided data processing services to Venus Inc., which is a specified foreign company in relation to Mercury Ltd. The aggregate value of such international transactions entered into in the P.Y.2018-19 is ₹105 crores. It declared an operating profit margin of ₹16 crores. Its operating expenses were ₹80 crores.
 - (ii) Jupiter Ltd., an Indian company, provides contract R & D services relating to software development to Saturn Inc., a US company which guarantees 12% of the borrowings of Jupiter Ltd. The value of such international transactions entered into in the P.Y.2018-19 is ₹190 crores. It declared an operating profit margin of ₹40 crores against an operating expenses of ₹175 crores.

In case it is not binding on the income-tax authorities to accept the transfer price declared by Mercury Ltd. or Jupiter Ltd., what is the primary adjustment, if any, to be made by either company in the A.Y.2019-20?

15. Mr. Gopal, aged 50 years, is a resident individual having income from the following sources:
- (i) Income from a sole-proprietary business in Pune ₹ 75 lakhs.
 - (ii) Share of profit from a partnership firm in Mumbai ₹ 25 lakhs.
 - (iii) Agricultural Income (gross) from tea gardens in Country G, a foreign country with which India has no DTAA, CGD 45000. Withholding Tax on the above income CGD 9,000
 - (iv) Brought forward business loss of F.Y.2015-16 in Country G was CGD 5,000 which is not permitted to be set off against other income as per the laws of that country.
 - (v) Mr. Gopal has deposited ₹1,50,000 in public provident fund and paid medical insurance premium of ₹28,000 by account payee cheque to insure the health of himself and his wife.

Compute total income and tax liability of Mr. Gopal for the A.Y. 2019-20, assuming that 1 CGD = ₹70.

MOST APPROPRIATE OPTION – OBJECTIVE TYPE QUESTIONS

- (i) (d)
- (ii) (d)
- (iii) (c)
- (iv) (d)
- (v) (c)
- (vi) (d)
- (vii) (c)
- (viii) (b)
- (ix) (c)
- (x) (d)

SUGGESTED ANSWERS/HINTS – DESCRIPTIVE QUESTIONS

1. (i) **Sale of shares of Berkley Ltd. by PQR Ltd. to LMN Ltd. on 1.4.2010**

Since LMN Ltd. is an Indian company which holds 100% of shares of PQR Ltd., the transfer of capital asset, namely, shares of Berkley Ltd., by PQR Ltd. to LMN Ltd. would not be treated as a transfer for attracting capital gains tax liability as per section 47(v).

Hence, no capital gains tax would have been attracted on such transfer in the hands of PQR Ltd.

(ii) Disinvestment by LMN Ltd., of 7% shares held in PQR Ltd. in November, 2018

As per section 47A(1), where a holding company ceases to hold 100% of shares of the subsidiary company before the expiry of a period of eight years from the date of transfer of capital asset, the amount of capital gains not charged to tax at the time of transfer would be deemed to be income chargeable under the head "Capital gains" of the previous year in which such transfer took place.

However, in this case, the above deeming provision would not apply because the eight year period from the date of transfer expires on 31.3.2018 and the disinvestment by LMN Ltd. of 7% shares held in PQR Ltd. was only in November, 2018.

(iii) Sale of shares of Berkley Ltd. by LMN Ltd. in February 2019

This transaction would attract capital gains tax in the hands of LMN Ltd. for the A.Y.2019-20. The capital gains would be long-term, since the period of holding is more than 24 months.

The cost of acquisition to PQR Ltd. in the year 1992 (i.e., ₹ 7,00,000) or the fair market value as on 1.4.2001 (₹ 32,00,000), whichever is higher, would be deemed as the cost of acquisition in the hands of LMN Ltd.

Computation of capital gains in the hands of LMN Ltd.

Particulars	₹
Sale consideration	95,00,000
Less: Indexed cost of acquisition [₹ 32,00,000 x 280/100]	<u>89,60,000</u>
Long-term capital gains	<u>5,40,000</u>
Tax on long-term capital gains@20.8% (₹ 5,40,000 x 20.8%)	1,12,320

2. Since gross receipts of ₹ 47,80,000 of Ms. Janani from interior decoration profession carried on by her is less than ₹ 50,00,000, she can opt for presumptive tax provisions under section 44ADA.

In such a case, her income from interior decoration profession would be ₹ 23,90,000, being 50% of ₹ 47,80,000. Since all deductions allowable under sections 30 to 38 are deemed to have been given full effect to, no deduction in respect of depreciation would be allowable from the income computed on presumptive basis under section 44ADA.

I. Where Ms. Janani declares income from profession on presumptive basis u/s 44ADA

Computation of total income of Ms. Janani		
Particulars	₹	₹
Income from house property		
Self-occupied property	Nil	
Let-out Property:		
Annual Value [₹ 15,000 x 12] ³	1,80,000	
Less: Deduction u/s 24 [30% of ₹ 1,80,000]	<u>54,000</u>	
		1,26,000
Profits and gains from business or profession		
Income from interior decoration profession [50% of ₹ 47,80,000]		<u>23,90,000</u>
Total Income		<u>25,16,000</u>
Computation of tax liability of Ms. Janani		
Particulars	₹	
Tax on total income = [30% of ₹ 15,16,000 (₹ 25,16,000 – ₹10,00,000) + ₹ 1,12,500]	5,67,300	
Add: Health and education cess@4%	<u>22,692</u>	
Total tax liability	5,89,992	
Add: Interest under section 234B [1% of ₹ 5,89,900 ⁴]	5,899	
Interest under section 234C [1% of ₹ 5,89,900, since the advance tax liability has to be paid in one instalment on or before 15.3.2019]	<u>5,899</u>	
Total tax and interest liability	<u>6,01,790</u>	
Ms. Janani can, however, declare lower profits than the presumptive profits of ₹ 23,90,000, if she maintains books of accounts under section 44AA and gets the same audited under section 44AB. In such case, she can file return on or before 30.9.2019.		

³ Rent received is taken as Annual Value in the absence of information relating to fair rent, municipal value and standard rent.

⁴ Rounded off as per Rule 119A

II Where Ms. Janani declares income from profession as per books of account

Computation of total income of Ms. Janani		
Particulars	₹	₹
Income from house property		
Self-occupied property	Nil	
Let-out property:		
Annual Value [₹ 15,000 x 12]	1,80,000	
Less: Deduction u/s 24 [30% of ₹ 1,80,000]	<u>54,000</u>	1,26,000
Profits and gains from business or profession		
Income from interior decoration profession [₹ 25,00,000 – ₹ 1,50,000]		<u>23,50,000</u>
Total Income		<u>24,76,000</u>
Computation of tax liability:		
Tax on total income = [30% of ₹ 14,76,000 (₹ 24,76,000 – ₹ 10,00,000) + ₹ 1,12,500]		5,55,300
Add: Health and education cess@4%		<u>22,212</u>
Total tax liability		5,77,512
Add: Interest under section 234B [1% of ₹ 5,77,500]		5,775
Interest under section 234C [See Working Note below]		<u>29,164</u>
Total tax and interest liability		<u>6,12,451</u>
Total tax and interest liability (rounded off)		<u>6,12,450</u>

Although the income from profession computed as per books of account is lower than the income from profession computed on presumptive basis under section 44ADA, however, the cumulative tax and interest liability would be higher by ₹ 10,660 (i.e., ₹ 6,12,450 - ₹ 6,01,790) in case of the former. Therefore, Ms. Janani should opt to declare income on presumptive basis under section 44ADA, in which case, she has to file her return of income on or before 31st July, 2019.

Working Note: Computation of interest under section 234C

Date	Advance tax payable till date	Short-fall	Rate of interest [1% per month]	Interest
		(₹)		(₹)
15.06.2018	15%	86,625	3% [1% x 3]	2,599
15.09.2018	45%	2,59,875	3% [1% x 3]	7,796
15.12.2018	75%	4,33,125	3% [1% x 3]	12,994
15.03.2019	100%	5,77,500	1%	<u>5,775</u>
				<u>29,164</u>

Note – The above solution has been worked out by considering that Ms. Janani pays the advance tax required to be paid in April, 2019 itself, after consulting the tax advisor in the month of April, 2019.

3. 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 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, i.e., actual cost; 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 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:

- (i) In the case of Mr. Ravi, the cost of acquisition of equity share of Tapti Ltd. would be ₹ 2,300, being higher of actual cost i.e., ₹ 1,200 and ₹ 2,300 (being the lower of FMV of ₹ 2,300 as on 31.1.2018 and actual sale consideration of ₹ 3,000). Thus, the long-term capital gain would be ₹ 3,50,000 i.e., $(₹ 3,000 - ₹ 2,300) \times 500$ shares.
 - (ii) In the case of Mr. Giri, the cost of acquisition of equity shares of Narmada Ltd. would be ₹ 4,200, being higher of actual cost i.e., ₹ 3,100 and ₹ 4,200 (being the lower of FMV of ₹ 4,500 as on 31.1.2018 and actual sale consideration of ₹ 4,200). Thus, the long-term capital gains would be Nil $(₹ 4,200 - ₹ 4,200) \times 700$ shares.
 - (iii) In the case of Mr. Mani, the cost of acquisition of equity shares of Cauvery Ltd. would be ₹ 2,500, being higher of actual cost i.e., ₹ 2,500 and ₹ 1,800 (being the lower of FMV of ₹ 1,800 as on 31.1.2018 and actual sale consideration of ₹ 3,200). Accordingly, the long-term capital gains would be ₹ 2,10,000 i.e., $[(₹ 3,200 - ₹ 2,500) \times 300]$.
 - (iv) In the case of Mr. Sathy, the cost of acquisition of equity shares of Mahanadi Ltd. would be ₹ 1,900, being higher of actual cost i.e., ₹ 1,900 and ₹ 1,700 (being the lower of FMV of ₹ 2,400 as on 31.1.2018 and actual sale consideration of ₹ 1,700). The long-term capital loss would be ₹ 1,20,000 $(₹ 1,700 - ₹ 1,900) \times 600$ shares.
4. The issue under consideration is whether the interest income from share application money is taxable under the head 'Income from Other Sources', or can the same be set-off against public issue expenses.

This issue came up before the Supreme Court in *CIT v. Sree Rama Multi Tech Ltd.* [2018] 403 ITR 426. The Supreme Court observed that the assessee-company was statutorily required to keep share application money in a separate account till the allotment of shares was completed. Part of the share application money would normally have to be returned to unsuccessful applicants, and therefore, the entire share application money would not ultimately be appropriated by the company. The interest earned was inextricably linked with the requirement of raising share capital.

The Supreme Court further observed that any surplus money deposited in the bank for the purpose of earning interest is liable to be taxed as "Income from Other Sources"; however, in this case, the share application money was deposited with the bank not to make additional income by earning interest but to comply with the statute. The interest accrued on such deposit is merely incidental. Moreover, the issue of shares relates to capital structure of the company and hence, expenses incurred in connection with the issue of shares are to be capitalized. Accordingly, the Supreme Court held that the accrued interest on deposit of share application money is eligible to be set-off against public issue expenses.

Applying the rationale of the Supreme Court ruling to the case on hand, the contention of the Assessing Officer that interest income is taxable under the head "Income from Other Sources" is **not** correct.

5. The issue under consideration is whether delay in filing appeal under section 260A can be condoned under section 14 of the Limitation Act, 1963, where the stated reason for delay is the pursuance of an alternate remedy by way of filing an application before the ITAT under section 254(2) for rectification of mistake apparent on record.

This issue came up before the Supreme Court in *Spinacom India (P.) Ltd. v. CIT* [2018] 258 Taxman 128. The Supreme Court rejected the question of invoking section 14 of the Limitation Act 1963 which allows condonation of delay on demonstration of sufficient cause. The Apex Court did not accept the submission that the application before the ITAT under section 254(2) was an alternate remedy to filing of the application under section 260A. The former is an application for rectifying a 'mistake apparent from the record' which is much narrower in scope than the latter. Under section 260A, an order of the ITAT can be challenged on substantial questions of law. The Court stated that the appellant had the option of filing an appeal under section 260A while also mentioning in the Memorandum of Appeal that its application under section 254(2) was pending before the ITAT. The Supreme Court, therefore, held that the time period for filing an appeal under section 260A does not get suspended on account of the pendency of an application before the ITAT under section 254(2).

Accordingly, applying the rationale of the above Supreme Court ruling to the facts of this case, the delay in filing appeal under section 260A due to pursuance of an alternate

remedy by way of filing an application before the ITAT under section 254(2) cannot be condoned.

6. (a) Section 11(7) provides that where a trust has been granted registration under section 12AA and the registration is in force for a previous year, then, such trust cannot claim any exemption under any provision of section 10 [other than exemption of agricultural income under section 10(1) and exemption available under section 10(23C)].

Therefore, a charitable trust cannot claim exemption under section 10(35) in respect of income from mutual funds and exemption under section 10(34) in respect of dividends, since it has voluntarily opted for the special dispensation under sections 11 to 13, and consequently has to be governed by the provisions of these sections. Accordingly, it has to apply 85% of such income for charitable purposes to claim exemption under section 11. However, it can claim exemption under section 10(1) in respect of agricultural income, since section 11(7) provides an exception in respect of such income.

Therefore, the claim of HelpAll charitable trust, as regards exemption under section 10(34) and section 10(35), is **not** correct.

- (b) Section 11(6) provides that income for the purposes of application shall be determined without allowing any deduction for depreciation or otherwise in respect of any asset, the cost of acquisition of which has been claimed as an application of income under section 11 in the same or any other previous year.

Accordingly, in this case, since the cost of computers (i.e., ₹ 12 lakh) has been claimed and allowed as application of income under section 11 while computing the income of the trust for the P.Y.2017-18, depreciation on computers will not be allowed for the purpose of determining income for the purposes of application in the P.Y.2018-19.

Therefore, the depreciation claim made by HistoSpace charitable trust is not correct.

7. The issue under consideration in this case is whether the increase in gross total income on account of disallowance of expenditure under section 40(a)(ia) can be considered for the purpose of deduction under section 80-IAC.

The Bombay High Court, in *CIT v. Sunil Vishwambharnath Tiwari (2016) 388 ITR 630*, observed that if, on account of non-deduction of tax at source by a company, expenses have been disallowed under section 40(a)(ia) which goes to increase the income chargeable under the head 'Profits and gains of business or profession', such enhanced income becomes eligible for deduction, as profit-linked deduction under Chapter VI-A is with reference to an assessee's gross total income.

The High Court held that the company is entitled to claim profit-linked deduction under Chapter VI-A in respect of the enhanced gross total income as a consequence of disallowance of expenditure under section 40(a)(ia).

Further, the CBDT has, in its Circular No.37/2016 dated 2.11.2016, mentioned that the courts have generally held that if the expenditure disallowed is related to the business activity against which the Chapter VI-A deduction has been claimed, the deduction needs to be allowed on the enhanced profits. Thus, the settled position is that the disallowances made under, *inter alia*, section 40(a)(ia), relating to the business activity against which the Chapter VI-A deduction has been claimed, result in enhancement of the profits of the eligible business, and that deduction under Chapter VI-A is admissible on the profits so enhanced by the disallowance.

Accordingly, applying the rationale of the Bombay High Court ruling and the CBDT Circular in this regard to the facts of this case, Sigma Ltd. would be entitled to claim deduction under section 80-IAC in respect of the enhanced profits of ₹ 25 lakhs, consequent to disallowance under section 40(a)(ia). The contention of Sigma Ltd. is, therefore, correct.

8. As per section 115-O, dividend distribution tax at the rate of 17.472% (i.e., 15% plus surcharge @12% and health and education cess@4%) is leviable on dividend declared, distributed or paid by a domestic company. As per section 115-O(1A), a holding company receiving dividend from its domestic subsidiary company can reduce the same from dividend declared, distributed or paid by it for the purpose of payment of dividend distribution tax. The dividend from its domestic subsidiary company should be received in the same financial year in which the holding company declares, distributes or pays the dividend. Further, the dividend shall not be considered for reduction more than once.

The conditions to be fulfilled for this purpose are as follows:

- (1) The domestic subsidiary company should have paid the dividend distribution tax which is payable on such dividend;
- (2) The recipient holding company should be a domestic company;

For this purpose, a holding company is a company which holds more than 50% of the nominal value of equity shares of another company.

Section 115-O(1B) provides that for the purposes of determining the tax on distributed profits payable in accordance with section 115-O, any amount by way of dividends referred to in section 115-O(1), as reduced by the amount referred to in section 115-O(1A) [referred to as net distributed profits], shall be increased to such amount as would, after reduction of the tax on such increased amount at the rate specified in section 115-O(1), be equal to the net distributed profits.

(i) Where Vindhya Ltd. holds 52% of shares of Satpura Ltd.

In this case, Vindhya Ltd. is the holding company of Satpura Ltd. It receives dividend during the year from its subsidiary company, Satpura Ltd., which has paid the DDT as payable on such dividend. Accordingly, dividend distributed by the holding company, Vindhya Ltd., in the same year to the extent of dividend received from the subsidiary, Satpura Ltd., shall not be subject to DDT under section 115-O. Therefore, Vindhya Ltd. can reduce the amount of dividend received from Satpura Ltd. from the dividend distributed by it for computation of dividend distribution tax payable.

On the basis of the aforesaid provisions, dividend distribution tax payable by Vindhya Limited shall be computed as follows:

Particulars	₹ in lakh
Dividend distributed by Vindhya Ltd.	48.00
Less: Dividend received from subsidiary Satpura Ltd. (52% of ₹ 60 lakhs)	<u>31.20</u>
Net distributed profits	16.80
Add: Increase for the purpose of grossing up of dividend $16.80 \times \frac{15}{85}$	<u>2.96</u>
Gross dividend	<u>19.76</u>
Additional income-tax payable by Vindhya Ltd. u/s 115-O [15% of ₹ 19.76 lakh]	2.96
Add: Surcharge@12%	<u>0.36</u>
	3.32
Add: Health and education cess@4%	<u>0.13</u>
	<u>3.45</u>

Therefore, dividend distribution tax payable by Vindhya Ltd. shall be 17.472% of ₹ 19.76 lakhs (grossed up amount) i.e. ₹ 3.45 lakhs.

(ii) Where Vindhya Ltd. holds 48% of shares of Satpura Ltd.

In this case, since Vindhya Ltd. is not the holding company of Satpura Ltd., it cannot reduce the dividend received from Satpura Ltd. from dividend distributed by it, for computing dividend distribution tax payable.

Particulars	₹ in lakh
Dividend distributed by Vindhya Ltd.	48.00
Add: Increase for the purpose of grossing up of dividend $48 \times \frac{15}{85}$	<u>8.47</u>
Gross dividend	<u>56.47</u>

Additional income-tax payable by Vindhyas Ltd. u/s 115-O [15% of ₹ 56.47 lakh]	8.47
Add: Surcharge@12%	<u>1.02</u>
	9.49
Add: Health and education cess@4%	<u>0.38</u>
	<u>9.87</u>

9. 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, *inter alia*, under section 80-IA, 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 the partnership firm, M/s. Aravali, has undertaken specified domestic transactions and has to file transfer pricing report under section 92E for A.Y.2019-20, its due date of filing return of income for A.Y.2019-20 would be 30th November, 2019 as per section 139(1). Therefore, the difference in tax liability where return is filed on or before 30th November, 2019 and where return is filed in March, 2020 has to be computed to understand the impact of late filing of return on the tax liability of the firm.

Computation of total income and tax liability of M/s. Aravali for A.Y.2019-20

- I. Where the firm files its return of income on 30th November 2019:

Particulars	₹ in lakhs
Gross Total Income	600.00
Less: Deduction under section 80-IA	<u>510.00</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-IA	<u>510.00</u>
Adjusted Total Income	<u>600.00</u>
Alternate Minimum Tax (AMT) @ 18.5% on ₹ 600 lakhs	111.00
Add: Surcharge@12% (Since adjusted total income > ₹ 1 crore)	<u>13.32</u>
	124.32
Add: Health and education cess@4%	<u>4.97</u>
Total tax payable (AMT)	<u>129.29</u>

Since the regular income-tax payable by the firm is less than the alternate minimum tax payable, the adjusted total income 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 ₹ 129.29 lakhs.

Tax credit for Alternate Minimum Tax [Section 115JD]	₹ in lakhs
Total tax payable for A.Y.2019-20 (Alternate Minimum Tax)	129.29
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>101.21</u>

II. Where the firm files its return of income in March, 2020:

Where the firm files its return in March, 2020, it would be a belated return under section 139(4). Consequently, as per section 80AC, deduction under section 80-IA would not be available. In such circumstances, the gross total income of ₹ 600 lakhs would be the total income of the firm.

Particulars	₹ in lakhs
Income-tax@30% of ₹ 600 lakhs	180.000
Add: Surcharge@12% (since total income exceeds ₹ 100 lakhs)	<u>21.600</u>
Income-tax (plus surcharge)	201.600
Add: Health and education cess@4%	<u>8.064</u>
Total tax liability	<u>209.664</u>

Right course of action to minimize tax liability

The right course of action to minimize tax liability would be to file the return of income under section 139(1) on or before the due date 30.11.2019 and claim deduction under section 80-IA. In such a case, the firm can claim deduction of ₹ 510 lakhs under section 80-IA. Thereafter, consequent to the clarifications obtained, if any change is required, it can file a revised return under section 139(5) within 31.3.2020 (i.e., within the end of A.Y.2019-20) which would replace the original return filed under section 139(1). A revised return filed under section 139(5) 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 ₹ 129.29 lakhs, as against ₹ 209.664 lakhs 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 ₹ 101.21 lakhs. Therefore, the firm is advised to file its return of income on or before 30.11.2019.

10. Computation of MAT liability of Godavari Ltd. under section 115JB for A.Y.2019-20

Particulars	₹	₹
Book profit after adjustment of items under section 115JB(2) [except brought forward business loss and unabsorbed depreciation]		87,34,000
Less: Brought forward business loss [₹ 8,20,000 + ₹ 7,30,000]	15,50,000	
Unabsorbed depreciation [₹ 7,60,000 + ₹ 9,50,000]	<u>17,10,000</u>	
[Since Godavari Ltd. is a company against which an application for corporate insolvency resolution process has been admitted by NCLT under section 7 of the Insolvency and Bankruptcy Code, 2016, the amount of total loss brought forward (including unabsorbed depreciation) is allowed to be reduced from the book profit for the purposes of levy of MAT under section 115JB].		32,60,000
Book profit computed in accordance with Explanation 1 to section 115JB(2)		<u>54,74,000</u>
Add: Items credited to OCI that will not be reclassified to profit or loss:		
Deferred gains on cash flow hedges	6,70,000	
Share of Other Comprehensive Income of Other Associates	2,80,000	
Re-measurement of post-employment benefit obligations	5,20,000	
Revaluation surplus for assets ₹ 8,20,000 [Book profit not to be increased by revaluation surplus for assets as per proviso to section 115JB(2A)]	<u>Nil</u>	
		<u>14,70,000</u>
		69,44,000
Less: Items debited to OCI that will not be reclassified to profit or loss:		
Deferred costs of hedging	3,80,000	
Changes in fair values of equity instruments ₹ 8,00,000 [Book profit not to be decreased by changes in fair values of equity instruments as per proviso to section 115JB(2A)]	<u>Nil</u>	
		<u>3,80,000</u>
		65,64,000
Add: One-fifth of Transition amount [Credit Balance]		
Transition amount	48,00,000	

Less: Amounts to be excluded from above		
Capital Reserve	6,00,000	
Translation difference in foreign operations	<u>5,00,000</u>	
	<u>37,00,000</u>	
One-fifth of ₹ 37,00,000		7,40,000
Book Profit for levy of MAT		<u>73,04,000</u>
MAT on book profit under section 115JB = 18.5% of ₹ 73,04,000		13,51,240
Add: Health and education cess@4%		54,050
MAT liability for A.Y.2019-20		<u>14,05,290</u>

Computation of tax credit to be carried forward

Particulars	₹
MAT liability for A.Y.2019-20 (rounded off)	14,05,290
Income-tax computed as per the normal provisions of the Act for A.Y.2019-20	13,20,000
Since the income-tax liability computed as per the regular provisions of the Income-tax Act, 1961 is less than the MAT payable, the book profit would be deemed to be the total income and tax is leviable @18.5%. The total tax liability (rounded off) is ₹ 14,05,290.	
Computation of tax credit to be carried forward	
Tax payable for A.Y.2019-20 on deemed total income	14,05,290
Less: Income-tax payable as per the normal provisions of the Act	<u>13,20,000</u>
Tax credit in respect of tax paid on deemed income	<u>85,290</u>
[Can be carried forward for 15 Assessment Years i.e., upto A.Y.2034-35]	

11. Section 264(4)(c) provides that the Principal Commissioner or Commissioner has no power to revise any order which has been made the subject matter of an appeal to the Commissioner (Appeals), even if the relief claimed in the petition is different from the relief claimed in appeal. The concept of total merger would apply in the case of section 264. It was so held by the Supreme Court in the case of *Hindustan Aeronautics Ltd v. CIT (2000) 243 ITR 898*.

Section 154(1A) provides that where any matter had been considered and decided in any proceeding by way of appeal or revision relating to an order, Assessing Officer may amend the order for rectification of mistake apparent from the record, in relation to a matter other than the matter which has been considered and decided. The concept of partial merger would apply in the case of section 154.

In the present case, since the order passed by the Assessing Officer in respect of the addition of unexplained investment of ₹ 12 lakhs became the subject matter of an appeal to the Commissioner (Appeals), the assessee, M/s. Uranus LLP, cannot apply for revision under section 264 even if the subject matter of revision i.e., addition of ₹ 4 lakhs under section 40(b) is different from the subject matter of appeal.

However, M/s. Uranus LLP can apply to the Assessing Officer for rectification of the order in respect of addition of ₹ 4 lakh under section 40(b), if the mistake is apparent from the record, as this matter has not been considered and decided in any proceeding by way of appeal or revision.

In the view of above, the assessee, M/s. Uranus LLP should seek rectification under section 154.

12. M/s. Pluto LLP is deemed to have under-reported its income since:

- (1) its income assessed under 143(3) exceeds its income determined in a return processed under section 143(1)(a); and
- (2) the income reassessed under section 147 exceeds the income assessed under section 143(3).

Therefore, penalty is leviable under section 270A for under-reporting of income.

Computation of penalty leviable under section 270A

Particulars	₹	₹
<u>Assessment under section 143(3)</u>		
<u>Under-reported income:</u>		
Total income assessed under section 143(3)	40,00,000	
(-) Total income determined u/s 143(1)(a)	30,00,000	
	10,00,000	
Tax payable on under-reported income:		
Tax on under-reported income of ₹ 10 lakhs plus tax on total income of ₹ 30 lakhs determined u/s 143(1)(a) [30% of ₹ 40 lakh + HEC@4%]	12,48,000	
Less: Tax on total income determined u/s 143(1)(a) [30% of ₹ 30 lakh + HEC@4%]	9,36,000	
	3,12,000	
Penalty leviable@50% of tax payable		1,56,000
<u>Reassessment under section 147</u>		
<u>Under-reported income:</u>		
Total income reassessed under section 147	45,00,000	
(-) Total income assessed under section 143(3)	40,00,000	
	5,00,000	

Tax payable on under-reported income: Tax on under-reported income of ₹ 5 lakhs plus tax on total income of ₹ 40 lakhs assessed u/s 143(3) [30% of ₹ 45 lakh + HEC@4%]	14,04,000	
Less: Tax on total income assessed u/s 143(3) [30% of ₹ 40 lakh + HEC@4%]	12,48,000	
	1,56,000	
Penalty leviable@50% of tax payable		78,000

13. **Computation of total income of Neptune Inc., a notified FII, for A.Y.2019-20**

Particulars	₹	₹
Interest on Rupee Denominated Bonds	8,50,000	
Dividend income of ₹ 6,20,000 [Exempt under section 10(34)]	Nil	
Interest on securities [No deduction is allowable in respect of expenses incurred in respect thereof]	17,32,000	25,82,000
Long-term capital gains on sale of bonds of Jupiter Ltd.		
Sale consideration	47,00,000	
Less: Cost of acquisition	32,00,000	
[Benefit of indexation is not allowable]		15,00,000
Short-term capital gains on sale of STT paid equity shares of Earth Ltd.		
Sale consideration	12,40,000	
Less: Cost of acquisition	7,80,000	
		4,60,000
Short-term capital gains on sale on unlisted equity shares of Mars Ltd.		
Sale consideration	8,40,000	
Less: Cost of acquisition	3,72,000	
		4,68,000
Total Income		50,10,000

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

Particulars	₹
Tax@5% on interest of ₹ 8,50,000 received from an Indian company on investment in rupee denominated bonds = 5% x ₹ 8,50,000	42,500
Tax@20% on interest on securities of ₹ 17,32,000 = 20% x ₹ 17,32,000	3,46,400

Tax@10% on long-term capital gains on sale of bonds of Jupiter Ltd. = 10% x ₹ 15,00,000	1,50,000
Tax@15% on short-term capital gains on sale of listed equity shares of Earth Ltd., in respect of which STT has been paid = 15% of ₹ 4,60,000	69,000
Tax@30% on short-term capital gains on sale of unlisted equity shares of Mars Ltd. = 30% of ₹ 4,68,000	<u>1,40,400</u>
	7,48,300
Add: HEC@4%	<u>29,932</u>
Tax Liability	<u>7,78,232</u>
Tax Liability (rounded off)	<u>7,78,230</u>

14. (i) Venus Inc. is a specified foreign company in relation to Mercury Ltd. Therefore, the condition of Mercury Ltd. holding shares carrying not less than 26% of the voting power in Venus Inc is satisfied. Hence, Venus Inc. and Mercury Ltd. are deemed to be associated enterprises as per section 92A(2). Therefore, provision of data processing services by Mercury Ltd., an Indian company, to Venus Inc., a foreign company, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

Data processing services with the use of information technology falls within the definition of "information technology enabled services", and is hence, an eligible international transaction. Since Mercury Ltd. is providing data processing services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the aggregate value of transactions entered into in the P.Y.2018-19 exceeds ₹ 100 crore but does not exceed ₹ 200 crore, Mercury Ltd. should have declared an operating profit margin of not less than 18% in relation to operating expense, to be covered within the scope of safe harbour rules. In this case, since Mercury Ltd. has declared an operating profit margin of 20% $\left(\text{i.e. } \frac{16}{80} \times 100 \right)$, the same is in

accordance with the circumstance mentioned in Rule 10TD. Hence, the income-tax authorities shall accept the transfer price declared by Mercury Ltd in respect of such international transaction.

Therefore, Mercury Ltd. need not make any primary adjustment.

- (ii) Saturn Inc., a foreign company, guarantees 12% of the total borrowings of Jupiter Ltd., an Indian company. Since Saturn Inc. guarantees not less than 10% of the total borrowings of Jupiter Ltd., Saturn Inc. and Jupiter Ltd. are deemed to be associated enterprises as per section 90A(2). Therefore, provision of contract R & D

services relating to software development by Jupiter Ltd., an Indian company, to Saturn Inc., a foreign company, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

Provision of contract R& D services in relation to software development is an eligible international transaction. Since Jupiter Ltd. is providing such services to a non-resident associated enterprise and has exercised a valid option for safe harbour rules, it is an eligible assessee.

Since the value of the international transaction does not exceed ₹ 200 crore, Jupiter Ltd. should have declared an operating profit margin of not less than 24% in relation to operating expense, to be covered within the scope of safe harbour rules. In this case, since Jupiter Ltd. has declared an operating profit margin of 22.86% $\left(\text{i.e. } \frac{40}{175} \times 100 \right)$, the same is not in accordance with the circumstance mentioned in Rule 10TD. Hence, it is not binding on the income-tax authorities to accept the transfer price declared by Jupiter Ltd.

Jupiter Ltd. has to, therefore, make a primary adjustment of ₹2 crores [i.e., ₹ 42 crores, being 24% of ₹ 175 crores – ₹ 40 crores] in the A.Y.2019-20.

15. **Computation of total income and tax liability of Mr. Gopal for A.Y. 2019-20**

Particulars	₹	₹
Profits and gains from business and profession		
Income from sole proprietary concern in India	75,00,000	
Share of profit from a partnership firm in India of ₹ 25 lakhs, is exempt	Nil	
Business profit	75,00,000	
Less: Business Loss ⁵ in Country G (CGD 5000 x ₹ 70/CGD)	<u>3,50,000</u>	71,50,000
Income from Other Sources		
Agricultural income from tea gardens in Country G, is taxable in India (CGD 45000 x ₹ 70/CGD)		<u>31,50,000</u>
Gross Total Income		1,03,00,000

⁵ Since the eight year has not expired from the assessment year in which such business loss was incurred, such business loss can be set-off against current year business income.

Less: Deductions under Chapter VI-A		
Under section 80C [deposit in PPF]	1,50,000	
Under section 80D [Medi-claim premium paid ₹28,000, restricted to	<u>25,000</u>	<u>1,75,000</u>
Total Income		1,01,25,000
Tax on total income		
Tax on ₹ 1,01,25,000 [(30% x ₹ 91,25,000) plus ₹ 1,12,500]		28,50,000
Add: Surcharge@15%, since total income exceeds ₹ 1 crore		<u>4,27,500</u>
		32,77,500
Less: Marginal Relief (See Working Note below)		<u>58,750</u>
		32,18,750
Add: HEC@4%		<u>1,28,750</u>
		33,47,500
Average rate of tax in India [i.e., ₹ 33,47,500/₹ 1,01,25,000 x 100]	33.06%	
Average rate of tax in Country G [i.e., CGD 9000/CGD 45000]	20%	
Doubly taxed income [₹ 31,50,000 – ₹ 3,50,000]	28,00,000	
Rebate under section 91 on ₹ 28,00,000 @20% (lower of average Indian tax rate and rate of tax in Country G)		<u>5,60,000</u>
Tax payable in India [₹ 33,47,500 – ₹ 5,60,000]		27,87,500

Note: Since Mr. Gopal is resident in India for the P.Y.2018-19, his global income would be subject to tax in India. He is eligible for deduction under section 91 since the following conditions are fulfilled:-

- He is a resident in India during the relevant previous year.
- Agricultural income accrues or arises to him outside India during that previous year.
- Such agricultural income is not deemed to accrue or arise in India during the previous year.
- The income in question i.e., agricultural income, has been subjected to income-tax in Country G in his hands and he has paid tax on such income in Country G.

- (e) *There is no agreement under section 90 for the relief or avoidance of double taxation between India and Country G, where the income has accrued or arisen.*

Working Note : Computation of Marginal Relief

(A) Tax payable including surcharge on total income of ₹ 1,01,25,000		
₹ 2,50,000 – ₹ 5,00,000@5%	₹ 12,500	
₹ 5,00,000 – ₹ 10,00,000@20%	₹ 1,00,000	
₹ 10,00,000 – ₹ 1,01,25,000@30%	<u>₹ 27,37,500</u>	
Total	₹ 28,50,000	
Add: Surcharge @ 15%	<u>₹ 4,27,500</u>	₹ 32,77,500
(B) Tax payable on total income of ₹ 1 crore [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 27,00,000) plus surcharge@10%]		₹ <u>30,93,750</u>
(C) Excess tax payable (A)-(B)		₹ 1,83,750
(D) Marginal Relief (₹ 1,83,750 – ₹ 1,25,000, being the amount of income in excess of ₹ 1,00,00,000)		₹ 58,750

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 30.04.2019 and customs law as amended by the Finance Act, 2018 and notifications and circulars issued till 30.04.2019.
- (2) 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. State whether following statements are true or false w.r.t. provisions relating to Advance Ruling.
- (i) Questions on which the advance ruling can be sought under this Act, include rate of tax applicable to a particular supply and place of supply.
 - (ii) Rectification of advance ruling is not possible once the Authority for Advance Ruling has passed the orders.
 - (iii) The Authority for Advance Ruling shall pronounce its ruling within 90 days from the date of receipt of application.
 - (iv) Authority for Advance Ruling may accept application even if the question raised in the application is already pending or decided in any proceedings under any of the provisions of the CGST Act, 2017 qua the applicant.
 - (v) Authority for Advance Ruling may, by order, declare such advance ruling void *ab-initio* if it finds out that such ruling is obtained by suppression of material facts, fraud or misrepresentation of facts.

Choose from following options:

- (a) False, False, True, False, True
 - (b) False, True, True, False, True
 - (c) True, True, False, False, True
 - (d) False, False, False, False, True
2. M/s. Lex Corp. (P) Ltd. is a registered manufacturer of fruit juices. It purchases plastic bottles and cardboard and sends the same for affixing stickers on plastic bottles and manufacturing boxes from cardboard to a registered job worker, M/s. Hammer Industries (P) Ltd. These raw materials are sent directly from the place of business of supplier to the premises of job worker. M/s. Lex Corp. (P) Ltd. booked input tax credit on purchase of such items. The following transactions took place in this regard:

Value of goods sent to job worker	Input tax paid on such goods	Date of purchase of goods by M/s Lex Corp. (P) Ltd.	Date of receipt of goods by M/s Hammer Industries (P) Ltd.	Date of goods received back from M/s Hammer Industries (P) Ltd.
₹ 50,000	₹ 6,000	10-07-2017	15-07-2017	12-07-2018
₹ 2,00,000	₹ 24,000	25-09-2017	27-09-2017	13-10-2018
₹ 8,00,000	₹ 96,000	22-12-2017	25-12-2017	16-08-2019
₹ 10,00,000	₹ 1,20,000	21-01-2018	25-01-2018	23-01-2019
₹ 3,50,000	₹ 42,000	24-02-2018	26-02-2018	28-02-2019

Determine the total amount to be added to the output tax liability of M/s. Lex Corp. (P) Ltd. in case of violation of section 143 of the CGST Act, 2017. Ignore the different point of times when the amount is added to the output tax liability.

- (a) ₹ 2,88,000/- + Interest @ 18%
- (b) ₹ 2,88,000/- + Interest @ 24%
- (c) 1,62,000/- + Interest @ 24%
- (d) 1,62,000/- + Interest @ 18%
3. Mr. Rahul Roy, proprietor of M/s. Royal Shoe & Company is running a business of manufacturing shoes with the brand name of 'JUNOON'. The manufacturing unit is located in Delhi and registered under GST. However, due to low profitability in the business, he has decided to transfer his business to his friend Mr. Dilip Tijori. Mr. Dilip Tijori is already running the business of manufacturing shoes under a proprietorship firm named M/s Hawaii Shoes & Company which is located in Mumbai and registered under GST.

Mr. Rahul Roy has approached you to help him with the issue of transfer of unutilized input tax credit in electronic credit ledger of M/s. Royal Shoe & Company to M/s Hawaii Shoes & Company.

Advise Mr. Rahul Roy with the correct option in accordance with the provisions of the CGST Act, 2017:

- (a) M/s. Royal Shoe & Company cannot transfer unutilised input tax credit in its electronic credit ledger to M/s Hawaii Shoes & Company, as the proprietors are different.

- (b) M/s. Royal Shoe & Company can transfer unutilized input tax credit in its electronic credit ledger to M/s Hawai Shoes & Company and it can further be utilized in setting off GST liability for succeeding period.
 - (c) M/s. Royal Shoe & Company can transfer unutilized input tax credit in its electronic credit ledger to M/s Hawai Shoes & Company and it can be further utilized in setting off GST liability for a period upto the month of September following the year in which ITC was transferred.
 - (d) M/s. Royal Shoe & Company cannot transfer unutilized input tax credit in its electronic credit ledger to M/s Hawai Shoes & Company but can claim refund of such unutilized input tax credit.
4. An appeal to the High Court can be filed under the CGST Act, 2017 in the following cases:
- (i) By a person aggrieved against the order passed by the State bench or Area bench of the Appellate Tribunal.
 - (ii) By a person aggrieved against the order passed by the National bench or Regional bench of the Appellate Tribunal.
 - (iii) For matter involving substantial question of law.
 - (iv) All of the above.

Choose the correct option from the following:

- (a) (i) and (ii)
 - (b) (i) and (iii)
 - (c) (ii) and (iii)
 - (d) (iv)
5. Ms. Reena Banerji is engaged in retail business of selling mobile phones in the State of West Bengal. She has effected supplies to the customers in the State of Uttar Pradesh and Haryana. Her total turnover during the financial year ending 31st March, 20XX is ₹ 18,00,000. Owing to low profit margins in the business, she has decided to shut down the business in April 20XX.

The proper officer has collected evidences of the inter-State sale of mobile phones effected by Ms. Reena Banerjee during the FY ending 31st March 20XX. Now, the proper officer wants to make the assessment as she was liable for registration but did not get herself registered.

You are required to assist the proper officer by determining which assessment can be done in this case under the CGST Act, 2017?

- (a) Self-assessment
- (b) Provisional Assessment

- (c) Assessment of un-registered persons
- (d) Special assessment
6. Fury Ltd. has received an order for supply of services amounting to \$ 5,00,000/- from a US based client. Fury Ltd. is unable to supply the entire services from India and asks Neik Inc., Mexico (who is not an establishment of Fury Ltd.) to supply a part of the services, i.e. 40% of the total contract value to the US client. Fury Ltd. raised the invoice for entire value of \$ 5,00,000 but the US client paid \$ 3,00,000 to Fury Ltd. and \$ 2,00,000 directly to Neik Inc., Mexico which is approved by a special order of RBI. Fury Ltd. also paid IGST @ 18% on the services imported from Neik Inc. Mexico. Assuming all the conditions of section 2(6) of the IGST Act, 2017 are fulfilled, determine the value of export of services:
- (a) \$ 3,00,000
- (b) \$ 5,00,000
- (c) \$ 3,90,000
- (d) \$ 5,90,000
7. Mr. Khiladi Kumar, is the Managing Director of Khiladi Equipments (P) Ltd. The Company has offices and factories in Mumbai and is registered under GST. Mr. Khiladi Kumar, has decided to send food grains and other relief materials worth ₹ 50,00,000/- and ₹ 20,00,000 respectively through railway and airways to the cyclone hit victims in Kerala in the month of November, 20XX. The Company has contacted Super Airlines and Indian Railways to transport the materials from Mumbai to Kerala and price for the same has been determined as ₹10,00,000/- by air and ₹50,000/- by railways, excluding taxes. Mr. Khiladi Kumar, seeks your help to determine what amount of GST is to be paid to Super Airlines and Indian Railways if applicable GST rate is 18%.
- (a) Super Airlines: ₹ 1,80,000/-; Indian Railways: NIL
- (b) Super Airlines: ₹ 1,80,000/-; Indian Railways: ₹ 9,000
- (c) Super Airlines: Nil; Indian Railways: ₹ 9,000/-
- (d) Super Airlines: Nil; Indian Railways: Nil
8. For the purposes of rule 7 (Deductive Value) of the Customs (Determination of Value of Imported Goods) Rules, 2007, determine the unit price in greatest aggregate quantity:
A Ltd. makes two sales. In the first sale, 500 units are sold at a price of ₹ 95. In the second sale, 400 units are sold at a price of ₹ 100.
- (a) 95
- (b) 100
- (c) Average of 95 and 100 i.e. $(95+100)/2 = 97.5$
- (d) Insufficient data

9. Which of the following combinations is correct?

Situation	Consequence
1. Goods pilfered	1. Abatement of duty
2. Goods lost or destroyed	2. No liability pay customs duty
3. Goods damaged or deteriorated	3. Remission of duty

- (a) 1 and 1, 2 and 2, 3 and 3
 (b) 1 and 3, 2 and 1, 3 and 2
 (c) 1 and 2, 2 and 3, 3 and 1
 (d) 1 and 2, 2 and 1, 3 and 3
10. Which of the following statements are not correct in relation to drawback provisions under sections 74 and 75 of the Customs Act, 1962?
- (i) While drawback under section 74 is payable when duty paid goods are re-exported, drawback under section 75 is payable when imported materials are used in the manufacture of export goods
 (ii) While the rates for drawback under section 74 are fixed, a manufacturer may seek a special rate for drawback under section 75.
 (iii) In case drawback is not paid to the applicant within one month of application, the interest has to be paid to the applicant in both the cases.
 (iv) Drawback is not allowed in cases where market price of goods is less than the amount of drawback claimed.
- (a) All of above
 (b) None of above
 (c) (ii) and (iv)
 (d) (ii) and (iii)
11. "Chanakya Academy" is registered under GST in the State of Uttar Pradesh. The Academy runs the following educational institutions:
- (i) 'Keshav Institute of Technology' (KIT), a private engineering college in Ghaziabad. KIT also runs distance learning post graduate engineering programmes. Exams for such programmes are conducted in select cities at centres appointed by the KIT. All the engineering courses including the distance learning post graduate engineering programme run by KIT are recognised by the law [The All India Council for Technical Education (AICTE)].
 (ii) 'Little Millennium', a pre-school in Lucknow.

- (iii) 'Bright Minds', a coaching institute in Kanpur. The Institute provides coaching for Institute of Banking Personnel Selection (IBPS) Probationary Officers Exam.
- (iv) 'Spring Model' a higher secondary school affiliated to CBSE Board.

The Academy provides the following details relating to the expenses incurred by the various institutions run by it during the period April 20XX to September 20XX:

Table 1

S. No.	Particulars	KIT	Little Millennium	Bright Minds	Spring Model
		(₹)	(₹)	(₹)	(₹)
(i)	Printing services for printing the question papers (paper and content are provided by the Institutions)	2,50,000		1,50,000	2,00,000
(ii)	Paper procured for printing the question papers	4,30,000		2,58,000	3,44,000
(iii)	Honorarium to paper setters and examiners (not on the rolls of the Institution)	5,00,000			
(iv)	Rent for exam centres taken on rent like schools etc., for conducting examination	8,00,000		1,00,000	
(v)	Subscription for online educational journals [Little Millennium has taken the subscription for online periodicals on child development and experiential learning]	4,00,000	80,000	2,20,000	2,40,000
(vi)	Hire charges for buses used to transport students and faculty from their residence to the institutions and back	4,80,000	5,50,000	1,30,000	7,50,000
(vii)	Catering services for running a canteen in the campus for students (Catering services for KIT include a sum of ₹ 60,000 for catering at a student event)	3,20,000	2,60,000	1,80,000	5,00,000

	organised in a banquet hall outside the campus)				
(viii)	Security and housekeeping services for the institution(s) (Security and housekeeping services for Spring Model include a sum of ₹ 80,000 payable for security and housekeeping at the student event organised in a banquet hall outside the campus)	6,00,000	4,00,000	3,75,000	4,65,000

The academy further provides the following details relating to the receipts of the various institutions run by it during the period April 20XX to September 20XX:

Table 2

S. No.	Particulars	KIT	Little Millennium	Bright Minds	Spring Model
		(₹)	(₹)	(₹)	(₹)
(i)	Tuition fee	35,00,000	15,00,000	20,00,000	25,00,000
(ii)	Transport fee charged from students	5,00,000	6,00,000	1,30,000	8,50,000

With the help of the above details –

- (i) determine the amount of GST payable, if any, on goods and services received during April 20XX- September 20XX by the various educational institutions run by the 'Chanakya Academy';
- (ii) compute net GST liability of the 'Chanakya Academy' payable from the Electronic Cash Ledger, for the period April 20XX to September 20XX.

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

Notes:

- (i) Rate of GST on goods is 12%, catering service is 5% and on other services is 18%.
 - (ii) Wherever relevant, all the conditions necessary for availing the ITC have been complied with.
12. (a) Allfit Laboratories Ltd. is a registered supplier of bulk drugs in Delhi paying tax under regular scheme. It manufactures bulk drugs and supplies the same in the domestic and overseas market. The bulk drugs are supplied within Delhi and in the overseas market directly from the company's warehouse located in South Delhi. For supplies in other States of India, the company has appointed consignment

agents in each such State. However, supplies in Gurgaon (Haryana) and Noida (U.P.) are effected directly from South Delhi warehouse. The drugs are supplied to the consignment agents from the South Delhi warehouse.

Allfit Laboratories Ltd. also provides drug development services to drug manufacturers located in India, including testing of their new drugs in its laboratory located in Delhi.

The company has furnished the following information for the month of January, 20XX:

Particulars	₹
Advance received towards drug development services to be provided to Orochem Ltd., a drug manufacturer, located in Delhi [Drug development services have been provided in February, 20XX and invoice is issued on 28.02.20XX]	5,00,000
Advance received for bulk drugs to be supplied to Novick Pharmaceuticals, a wholesale dealer of drugs in Gurgaon, Haryana [Invoice for the goods is issued at the time of delivery of the drugs in March, 20XX]	6,00,000
Supply of bulk drugs to wholesale dealers of drugs in Delhi	60,00,000
Bulk drugs supplied to Anchor Pharmaceuticals Inc., USA under bond [Consideration received in convertible foreign exchange]	90,00,000
Drug development services provided to Unipharma Ltd., a drug manufacturer, located in Delhi	6,00,000

You are required to determine the GST liability [CGST & SGST or IGST, as the case may be] of Allfit Laboratories Ltd. for the month of January, 20XX with the help of the following additional information furnished by it for the said period:

1. Consignments of bulk drugs were sent to Cardinal Pharma Pvt. Ltd. and Rochester Medicos – agents of Allfit Laboratories Ltd. in Punjab and Haryana respectively. Cardinal Pharma Pvt. Ltd. and Rochester Medicos supplied these drugs under their invoices to the Medical Stores located in their respective States for ₹ 60,00,000 and ₹ 50,00,000 respectively.
2. Bulk drugs have been supplied to Ronn Medicos - a wholesale dealer of bulk drugs in Gurgaon, Haryana for consideration of ₹ 15,00,000. Allfit Laboratories Ltd. owns 72% shares of Ronn Medicos Pvt. Ltd. Open market value of the bulk drugs supplied to Ronn Medicos Pvt. Ltd. is ₹ 30,00,000. Further, Ronn Medicos Pvt. Ltd. is not eligible for full input tax credit.

Note:

- (i) All the given amounts are exclusive of GST, wherever applicable.
 (ii) Assume the rates of GST to be as under:

Goods/services supplied	CGST	SGST	IGST
Bulk drugs	2.5%	2.5%	5%
Drug development services	9%	9%	18%

You are required to make suitable assumptions, wherever necessary.

13. Prada Forex Private Limited, registered in Delhi, is a money changer. It has undertaken the following purchase and sale of foreign currency:
- (i) 1,000 US \$ are purchased from Nandi Enterprises at the rate of ₹ 68 per US \$. RBI reference rate for US \$ on that day is ₹ 68.60.
 (ii) 2,000 US \$ are sold to Menavati at the rate of ₹ 67.50 per US\$. RBI reference rate for US \$ for that day is not available.

Determine the value of supply in each of the above cases in terms of:

- (A) rule 32(2)(a) of the CGST Rules, 2017
 (B) rule 32(2)(b) of the CGST Rules, 2017.
14. (i) Mr. Z, a supplier registered in Hyderabad (Telangana), procures goods from China and directly supplies the same to a customer in US. With reference to the provisions of GST law, examine whether the said activity of supply of goods by Mr. Z to customer in US is taxable under GST. If yes, determine the place of supply of the same.
 (ii) Priyank of Pune, Maharashtra enters into an agreement to sell goods to Bisht of Bareilly, Uttar Pradesh. While the goods were being packed in Pune godown of Priyank, Bisht got an order from Sahil of Shimoga, Karnataka for the said goods. Bisht agreed to supply the said goods to Sahil and asked Priyank to deliver the goods to Sahil at Shimoga.

You are required to determine the place of supply(ies) in the above situation.

15. Discuss the liability to pay tax in case of an amalgamation/merger, under section 87 of the CGST Act, 2017.
 16. Examine whether the suppliers are eligible for composition scheme in the following independent cases. Is there any other option available for concessional tax payment with any of these suppliers, wherever composition scheme cannot be availed?
 (a) M/s Devlok, a registered dealer, is dealing in intra-State trading of electronic appliances in Jaipur (Rajasthan). It has turnover of ₹ 130 lakh in the preceding

financial year. In the current financial year, it has also started providing repairing services of electronic appliances.

- (b) M/s Narayan & Sons, a registered dealer, is running a “Khana Khazana” Restaurant near City Palace in Jaipur. It has turnover of ₹ 140 lakh in the preceding financial year. In the current financial year, it has also started dealing in intra-State trading of beverages in Jaipur (Rajasthan).
 - (c) M/s Indra & bro, a registered dealer, is providing restaurant services in Uttarakhand. It has turnover of ₹ 70 lakh in the preceding financial year. It has started providing intra-State interior designing services in the current financial year and discontinued rendering restaurant services.
 - (d) M/s Him Naresh, a registered dealer, is exclusively providing intra-state architect services in Uttarakhand. It has turnover of ₹ 40 lakh in the preceding financial year.
17. LMN Pvt. Ltd., Coimbatore exclusively manufactures and sells product ‘X’ which is exempt from GST vide notifications issued under relevant GST legislations. The company sells ‘X’ only within Tamil Nadu. The turnover of the company in the previous year was ₹ 45 lakh. The company expects the sales to grow by 30% in the current year. The company purchased additional machinery for manufacturing ‘X’ on 01.07.20XX. The purchase price of the capital goods was ₹ 30 lakh exclusive of GST @ 18%.

However, effective from 01.11.20XX, exemption available on ‘X’ was withdrawn by the Central Government and GST @ 12% was imposed thereon. The turnover of the company for the half year ended on 30.09.20XX was ₹ 45 lakh.

- (a) Examine the above scenario and advise LMN Pvt Ltd. whether it needs to get registered under GST.
 - (b) If the answer to the above question is in affirmative, advise LMN Pvt. Ltd. whether it can avail input tax credit on the additional machinery purchased exclusively for manufacturing “X”?
18. Mahadev Enterprises, a sole proprietorship firm, opened a shopping complex dealing in supply of goods at multiple locations, i.e. in Himachal Pradesh, Uttarakhand and Tripura in the month of June.

It has furnished the following details relating to the sale made at such multiple locations for the month of June:-

Particulars	Himachal Pradesh	Uttarakhand	Tripura
	(₹)*	(₹)*	(₹)*
Intra- State sale of taxable goods	22,50,000	-	7,00,000
Intra-State sale of exempted goods	-	-	6,00,000
Interest received from banks on the	-	-	60,000

fixed deposits			
Intra-State sale of non-taxable goods	-	21,00,000	40,000

* excluding GST

With the help of the above mentioned information, answer the following questions giving reasons:-

- (1) Determine whether Mahadev Enterprises is liable to be registered under GST law and what is the threshold limit of taking registration in this case.
 - (2) Explain with reasons whether your answer in (1) will change in the following independent cases:
 - (a) If Mahadev Enterprises is dealing in taxable supply of goods only from Himachal Pradesh;
 - (b) If Mahadev Enterprises is dealing in taxable supply of goods and services only from Himachal Pradesh;
 - (c) If Mahadev Enterprises is dealing in taxable supply of goods only from Himachal Pradesh and has also effected inter - State supplies of taxable goods amounting to ₹ 4,00,000.
19. "Diligent Force" a professional training institute gets its training material of "Aptitude Quotient" printed from "Durga printing House" a printing press. The content of the material is provided by the Diligent Force who owns the usage rights of the same while the physical inputs including paper used for printing belong to the Durga Printing House. Ascertain whether supply of training material by the Durga Printing House constitutes supply of goods or supply of services.
20. In an order dated 20.08.20XX issued to GH (P) Ltd., the Joint Commissioner of CGST has confirmed a CGST demand of ₹ 280 crore. The company is disputing the entire demand of CGST and wants to know how much pre-deposit it has to make under the CGST Act, 2017 for filing an appeal before the Appellate Authority against the order of the Joint Commissioner. Assuming that the Appellate Authority also confirms the order of the Joint Commissioner and the company wants to file an appeal before the Appellate Tribunal against the order of the Appellate Authority, how much pre-deposit it has to make under the CGST Act, 2017 for filing the said appeal?
21. With reference to the provisions of section 17 of the CGST Act, 2017, examine the availability of input tax credit under the CGST Act, 2017 in the following independent cases:-
- (i) MBF Ltd., an automobile company, has availed works contract service for construction of a foundation on which a machinery (to be used in the production process) is to be mounted permanently.

- (ii) Shah & Constructions procured cement, paint, iron rods and services of architects and interior designers for construction of a commercial complex for one of its clients.
- (iii) ABC Ltd. availed maintenance & repair services from “Jaggi Motors” for a truck used for transporting its finished goods.
22. Compute export duty from the following data:
- (i) FOB price of goods: US \$ 50,000.
- (ii) Shipping bill presented electronically on 26.04.20XX.
- (iii) Proper officer passed order permitting clearance and loading of goods for export (Let Export Order) on 06.05.20XX.
- (iv) Rate of exchange and rate of export duty are as under:
- | | Rate of Exchange | Rate of Export Duty |
|---------------|------------------|---------------------|
| On 26.04.20XX | 1 US \$ = ₹ 70 | 10% |
| On 06.05.20XX | 1 US \$ = ₹ 73 | 8% |
- (v) Rate of exchange is notified for export by Central Board of Indirect taxes and Customs.
23. Answer the following questions with reference to the provisions of Duty Credit Scrips under Export from India Schemes under FTP 2015-2020.
- (i) Neha provides services eligible for SEIS Scheme. She wants to sell SEIS scrips earned by her. Can she do so?
- (ii) Can a manufacturer, instead of importing the inputs, source the same indigenously without payment of GST?
- (iii) An exporter was issued duty credit scrip dated 15.07.20XX. What is the period within which he must utilize the scrip?
- (iv) An exporter exported leather footwear through courier using e-commerce of value of ₹ 24,000. Can he apply for duty credit scrips under Merchandise Exports from India Scheme (MEIS)?
24. With reference to section 9A(1A) of the Customs Tariff Act, 1975, mention the ways that constitute circumvention of antidumping duty imposed on an article which may warrant action by the Central Government.
25. With reference to the Customs & Central Excise Duties Drawback Rules, 2017, briefly state whether an exporter who has already filed a duty draw back claim under All Industry Rates, can file an application for fixation on special brand rate.

SUGGESTED ANSWERS

1. (a)
2. (d)
3. (b)
4. (b)
5. (c)
6. (b)
7. (a)
8. (a)
9. (c)
10. (b)
11. (i) *Notification No. 12/2017 CT(R) dated 28.06.2017 (hereinafter referred to as exemption notification) which exempts various services from GST leviable thereon exempts select **services** provided to an educational institution.*

Here, the "educational institution" means an institution providing services by way of,-

- (i) pre-school education and education up to higher secondary school or equivalent;
- (ii) education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force;
- (iii) education as a part of an approved vocational education course;

The select services which are exempt when provided to an educational institution are-

- (i) transportation of students, faculty and staff;
- (ii) catering, including any mid-day meals scheme sponsored by the Central Government, State Government or Union territory;
- (iii) security or cleaning or house-keeping services performed in such educational institution;
- (iv) services relating to admission to, or conduct of examination by, such institution;
- (v) supply of online educational journals or periodicals

However, the services mentioned in points (i), (ii) and (iii) are exempt only when the same are provided to an educational institution providing services by way of pre-school education and education up to higher secondary school or equivalent.

Also, the supply of online educational journals or periodicals are not exempt from GST when provided to-

- (i) pre-school education and education up to higher secondary school or equivalent; or
- (ii) education as a part of an approved vocational education course.

In the given case, all the engineering courses including the distance learning post graduate engineering programme run by KIT are recognised by the law [The All India Council for Technical Education (AICTE)]. Therefore, since KIT imparts education as a part of a curriculum for obtaining a qualification recognised by the Indian law, the same is an educational institution in terms of the exemption notification.

Similarly, Little Millennium and Spring Model, being a pre-school and a higher secondary school respectively are also educational institutions in terms of the exemption notification.

However, Bright Minds, being a coaching centre, training candidates to secure a banking job, is not an educational institution in terms of the exemption notification. Hence, none of the select services (mentioned above) will be exempt when provided to Bright Minds.

In the light of the foregoing provisions, the amount of GST payable on goods and services received by these educational institutions during April 20XX- September 20XX is computed as under:

Particulars	KIT	Little Millennium	Bright Minds	Spring Model
	(₹)	(₹)	(₹)	(₹)
Printing services for printing the question papers (paper and content are provided by the Institutions)	Exempt [Services provided to educational institution in relation to conduct of examination]		27,000 [1,50,000 x 18%]	Exempt
Paper procured for printing the question papers – [Supply of	51,600 [4,30,000 x		30,960 [2,58,000 x	41,280 [3,44,000 x

select services to educational institutions is exempt and not supply of goods to such educational institutions]	12%]		12%]	12%]
Honorarium to paper setters and examiners (not on the rolls of the educational institution)	Exempt [Services provided to educational institution in relation to conduct of examination]			
Rent for exam centres taken on rent like schools etc., for conducting examination	Exempt [Services provided to educational institution in relation to conduct of examination]		18,000 [1,00,000 x 18%]	
Subscription for online educational journals [Little Millennium has taken the subscription for online periodicals on child development and experiential learning]	Exempt	14,400 [80,000 x 18%]	39,600 [2,20,000 x 18%]	4,320 [2,40,000 x 18%]
Hire charges for buses used to transport students and faculty from their residence to the institutions and back	86,400 [4,80,000 x 18%]	Exempt	23,400 [1,30,000 x 18%]	Exempt
Catering services for running a canteen in the campus for students	16,000 [3,20,000 x 5%]	Exempt	9,000 [1,80,000 x 5%]	Exempt

Catering service provided to pre-school and the higher secondary school is exempt irrespective of whether the same is provided within or outside the premises of the pre-school and the higher secondary school				
Security and housekeeping services for the institution(s) Security and housekeeping service provided to pre-school and the higher secondary school for the student event organised in a banquet hall will be taxable as only the security and housekeeping service provided within the premises of the pre-school and the higher secondary school are exempt.	1,08,000 [6,00,000 x 18%]	Exempt	67,500 [3,75,000 x 18%]	14,400 [80,000 x 18%]
Total GST payable on goods and services received by the educational institutions	2,62,000	14,400	2,15,460	60,000

- (ii) (1) Sl. No. 66 of Notification No. 12/2017 CT(R) dated 28.06.2017 also exempts services provided by an educational institution to its students, faculty and staff. All the educational institutions run by the Chanakya Academy except Bright Minds are educational institutions in terms of the exemption notification (as explained under point (i) above). Therefore, the education services and the transport services provided by KIT, Little Millennium, and Spring Model to its

students will be exempt from GST under Sl. No. 66 of the exemption notification. Thus, only the educational services provided by Bright Minds will be liable to GST @ 18%.

- (2) No input tax credit (ITC) will be availed on inputs and input services used in providing exempt education services, i.e. education services by KIT, Little Millennium, and Spring Model. Only Bright Minds will be entitled to avail ITC on inputs and input services used in providing taxable education services. However, ITC on outdoor catering services will be blocked in terms of section 17(5)(b)(i) of the CGST Act, 2017.
- (3) Since there are no common inputs and input services being used for providing taxable and exempt services, the need for reversal of ITC attributable to exempt supplies will not arise.

In the light of the foregoing provisions, the net GST liability of Chanakya Academy, which will comprise of only the tax liability of Bright Minds, is computed as under:

Particulars	Bright Minds
	(₹)
Tuition fee	20,00,000
Transport fee charged from students	<u>1,30,000</u>
Value of output supply taxable @ 18%	21,30,000
GST liability @ 18%	3,83,400
Less: ITC [Total tax payable by Bright Minds on the service received by it as computed in point (i) above less the tax payable on catering charges (₹ 2,15,460 - ₹ 9,000)]	<u>2,06,460</u>
Net GST payable from Electronic Cash Ledger	1,76,940

12. Computation of GST Liability of Allfit Laboratories Ltd. for the month of January, 20XX

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Advance received for drug development services supplied to Orochem Ltd., a drug manufacturer, located in Delhi [Note - 1]	45,000 [5,00,000 × 9%]	45,000 [5,00,000 × 9%]	
Advance received for bulk drugs to be supplied to Novick Pharmaceuticals, a wholesale			Nil

dealer of drugs in Gurgaon, Haryana [Note - 2]			
Supply of bulk drugs to wholesale dealers of drugs in Delhi [Note - 3]	1,50,000 [60,00,000 × 2.5%]	1,50,000 [60,00,000 × 2.5%]	
Bulk drugs supplied to Anchor Pharmaceuticals Inc., USA [Note - 4]			Nil
Supply of drug development services to Unipharma Ltd., a drug manufacturer, located in Delhi [Note - 5]	54,000 [6,00,000 × 9%]	54,000 [6,00,000 × 9%]	
Supply of bulk drugs to consignment agents - Cardinal Pharma Pvt. Ltd. and Rochester Medicos of Punjab and Haryana [Note - 6]			4,95,000 [99,00,000 × 5%]
Supply of bulk drugs to Ronn Medicos of Gurgaon, Haryana [Note - 7]			1,50,000 [30,00,000 × 5%]
Total GST liability	2,49,000	2,49,000	6,45,000

Notes:

1. Being an intra-State supply of services, supply of drug development services to Orochem Ltd. of Delhi is subject to CGST and SGST @ 9% each. Further, in terms of section 13(2) of the CGST Act, the time of supply of services is the earlier of the date of invoice or date of receipt of payment, if the invoice is issued within 30 days of the supply of service. In the given case, invoice is issued within 30 days of the supply of service. Therefore, time of supply of services will be date of receipt of advance and hence, GST is payable on the advance received in January, 20XX.
2. Being an inter-State supply of goods, supply of bulk drugs to Novick Pharmaceuticals of Gurgaon, Haryana is subject to IGST @ 5%. Further, in terms of section 12(2) of the CGST Act, the time of supply of goods is the earlier of the date of issue of invoice/last date on which the invoice is required to be issued or date of receipt of payment.

However, *Notification No. 66/2017 CT dated 15.11.2017* specifies that time of supply of goods for the purpose of payment of tax is the date of issue of invoice/last date of issue of invoice.

Thus, GST is not payable at the time of receipt of advance against supply of goods. The time of supply of the advance received for bulk drugs to be supplied to Novick Pharmaceuticals is the time of issue of invoice, which is in March, 20XX. Thus, said advance will be taxed in March, 20XX and not in January, 20XX.

3. Being an intra-State supply of goods, supply of bulk drugs to wholesale dealers of drugs in Delhi is subject to CGST and SGST @ 2.5 % each.
4. Section 2(5) of the IGST Act defines export of goods as taking goods out of India to a place outside India. In view of the said definition, supply of the bulk drugs to Anchor Pharmaceuticals Inc. of USA under bond is export of goods.

Export of goods is a zero-rated supply [Section 16(1) of the IGST Act]. A zero-rated supply under bond is made without payment of integrated tax [Section 16(3)(a) of IGST Act].

5. Being an intra-State supply of services, supply of drug development services to Unipharma Ltd. of Delhi is subject to CGST and SGST @ 9% each.
6. Value of supply of goods made through an agent is determined as per rule 29 of the CGST Rules. Accordingly, the value of supply of goods between the principal and his agent is the open market value of the goods being supplied, or at the option of the supplier, is 90% of the price charged for the supply of goods of like kind and quality by the recipient to his unrelated customer, where the goods are intended for further supply by the said recipient.

In the given case, since open market value is not available, value of bulk drugs supplied to consignment agents - Cardinal Pharma Pvt. Ltd. and Rochester Medicos – will be ₹ 99,00,000 [90% of (₹ 60,00,000 + ₹ 50,00,000)]. Further, being an inter-State supply of goods, supply of bulk drugs to the consignment agents is subject to IGST @ 5%.

7. If any person directly or indirectly controls another person, such persons are deemed as related persons. [Clause (a)(v) of explanation to section 15 of the CGST Act]. In the given case, since Allfit Laboratories Ltd. owns 72% shares of Ronn Medicos, both are related persons.

Value of supply of goods between related persons (other than through an agent) is determined as per rule 28 of the CGST Rules. Accordingly, the value of supply of goods between related persons is the open market value of such goods and not the invoice value. Furthermore, since Ronn Medicos is not eligible for full input tax credit, value declared in the invoice cannot be deemed to be the open market value of the goods. Thus, open market value of the bulk drugs supplied to Ronn Medicos, i.e. ₹ 30,00,000 is the value of supply of such goods. Further, being an inter-State supply of goods, supply of bulk drugs to Ronn Medicos is subject to IGST @ 5%.

13. Rule 32(2) of the CGST Rules, 2017 prescribes the provisions for determining the value of supply of services in relation to the purchase or sale of foreign currency, including money changing.

(A) Determination of value under rule 32(2)(a) of the CGST Rules, 2017

- (i) Rule 32(2)(a) of the CGST Rules, 2017 provides that the value of supply of services for a currency, when exchanged from, or to, Indian Rupees, shall be equal to the difference in the buying rate or the selling rate, as the case may be, and the Reserve Bank of India (RBI) reference rate for that currency at that time, multiplied by the total units of currency. Thus, value of supply is:

$$= (\text{RBI reference for US \$} - \text{Buying rate of US \$}) \times \text{Total number of units of US \$ bought}$$

$$= (\text{₹ } 68.6 - \text{₹ } 68) \times 1,000$$

$$= \text{₹ } 600$$

- (ii) First proviso to rule 32(2)(a) of the CGST Act, 2017 lays down that when the RBI reference rate for a currency is not available, the value shall be 1% of the gross amount of Indian Rupees provided or received by the person changing the money. Thus, value of supply is:

$$= 1\% \text{ of the gross amount of Indian Rupees received}$$

$$= 1\% \text{ of } (\text{₹ } 67.50 \times 2,000)$$

$$= \text{₹ } 1,350$$

(B) Determination of value under rule 32(2)(b) of the CGST Rules, 2017

Rule 32(2)(b) provides that value in relation to the supply of foreign currency, including money changing shall be deemed to be –

S. No.	Currency exchanged	Value of supply
1.	Upto ₹ 1,00,000	1% of the gross amount of currency exchanged OR ₹ 250 whichever is higher
2.	Exceeding ₹ 1,00,000 and upto ₹ 10,00,000	₹ 1,000 + 0.50% of the (gross amount of currency exchanged - ₹ 1,00,000)
3.	Exceeding ₹ 10,00,000	₹ 5,500 + 0.1% of the (gross amount of currency exchanged - ₹ 10,00,000) OR ₹ 60,000 whichever is lower

Thus, the value of supply in the given cases would be computed as under:

- (i) Gross amount of currency exchanged = ₹ 68 × 1,000 = ₹ 68,000. Since the gross amount of currency exchanged is less than ₹ 1,00,000, value of supply is 1% of the gross amount of currency exchanged [1% of ₹ 68,000] or ₹ 250, whichever is higher.

= ₹ 680

- (ii) Gross amount of currency exchanged = ₹ 67.50 × 2,000 = ₹ 1,35,000. Since the gross amount of currency exchanged exceeds ₹ 1,00,000 but is less than ₹ 10,00,000, value of supply is ₹ 1,000 + 0.50% of (₹ 1,35,000 - ₹ 1,00,000).

= ₹ 1,175

14. (i) Schedule III to the CGST Act specifies transactions/ activities which shall be neither treated as supply of goods nor supply of services. A new activity has been added in the said Schedule III vide the CGST (Amendment) Act, 2018 namely, supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India. Thus, it seeks to exclude from the tax net such transactions which involve movement of goods, caused by a registered person, from one non-taxable territory to another non-taxable territory.

Therefore, in view of the above-mentioned provisions, the said activity is not a supply. Hence, it is not leviable to GST since "supply" is the taxable event for chargeability of GST. Therefore, since the transaction is not leviable to GST, the question of place of supply does not arise in the given case.

- (ii) The supply between Priyank (Pune) and Bisht (Bareilly) is a **bill to ship to supply** where the goods are delivered by the supplier [Priyank] to a recipient [Sahil (Shimoga)] or any other person on the direction of a third person [Bisht]. The place of supply in case of domestic bill to ship to supply of goods is determined in terms of section 10(1)(b) of IGST Act, 2017.

As per section 10(1)(b) of IGST Act, 2017, where the goods are delivered by the supplier to a recipient or any other person on the direction of a third person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to the goods or otherwise, it shall be deemed that the said third person has received the goods and the place of supply of such goods shall be the principal place of business of such person.

Thus, in the given case, it is deemed that the Bisht has received the goods and the place of supply of such goods is the principal place of business of Bisht. Accordingly, the place of supply between Priyank (Pune) and Bisht (Bareilly) will be Bareilly, Uttar Pradesh.

This situation involves another supply between Bisht (Bareilly) and Sahil (Shimoga). The place of supply in this case will be determined in terms of section 10(1)(a) of IGST Act, 2017.

Section 10(1)(a) of IGST Act, 2017 stipulates that where the supply involves movement of goods, whether by the supplier or the recipient or by any other person, the place of supply of such goods shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient.

Thus, the place of supply in second case is the location of the goods at the time when the movement of goods terminates for delivery to the recipient (Sahil), i.e. Shimoga, Karnataka.

15. Section 87 of the CGST Act, 2017 stipulates that when two or more companies are amalgamated/merged in pursuance of an order of court/Tribunal/otherwise and the order is to take effect from a date earlier to the date of the order and any two or more of such companies have supplied/received any goods and/or services to/from each other during the period commencing on the date from which the order takes effect till the date of the order, then such transactions of supply and receipt shall be included in the turnover of supply or receipt of the respective companies and they shall be liable to pay tax accordingly.

For the purposes of the CGST Act, 2017, the said two or more companies shall be treated as distinct companies for the period up to the date of the said order. The registration certificates of the said companies shall be cancelled with effect from the date of the said order.

16. As per section 10 of the CGST Act, 2017, the following registered persons, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore, may opt to pay tax under composition levy.
- (a) Manufacturer,
 - (b) Persons engaged in making supplies referred to in clause (b) of paragraph 6 of Schedule II (restaurant services), and
 - (c) Any other supplier eligible for composition levy.

Thus, essentially, the composition scheme can be availed in respect of goods and only one service namely, restaurant service. However, the scheme permits supply of other marginal services for a specified value along with the supply of goods and restaurant service, as the case may be. Such marginal services can be supplied for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher.

Further, the registered person should not be engaged in making any inter-State outward supplies of goods.

Furthermore, an option of availing benefit of concessional payment of tax has been provided to a registered person whose aggregate turnover in the preceding financial year is upto ₹ 50 lakh and who is not eligible to pay tax under composition scheme. Said person can pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] on first supplies of goods and/or services up to an aggregate turnover of ₹ 50 lakh made on/after 1st April in

any financial year (FY), subject to specified conditions vide *Notification No. 2/2019 CT (R) dated 07.03.2019 as amended*. One of such condition is that the registered person should not be engaged in making any inter-state outward taxable supplies.

In view of the above-mentioned provisions, the answer to the given independent cases is as under:-

(a) The turnover limit for composition scheme in case of Jaipur (Rajasthan) is ₹1.5 crore. Thus, M/s Devlok can opt for composition scheme as its aggregate turnover is less than ₹1.5 crore. Further, since the registered person opting for composition scheme can also supply services (other than restaurant services) for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher, in the current financial year, M/s Devlok can supply repair services up to a value of ₹13 lakh [10% of ₹130 lakh or ₹5 lakh, whichever is higher] in the current financial year.

(b) In the given case:-

(i) the turnover in the preceding year is less than the eligible turnover limit, i.e. ₹ 1.5 crore.

(ii) the supplier is engaged in providing restaurant service which is an eligible supply under composition scheme.

(iii) the supplier wants to engage in trading of goods which is also an eligible supply under composition scheme.

Thus, M/s Narayan & Sons is eligible for composition scheme.

(c) The turnover limit for composition scheme in case of Uttarakhand is ₹ 75 lakh. Further, a registered person who is exclusively engaged in supplying services other than restaurant services are not eligible for composition scheme. Thus, M/s Indra & bro cannot opt for composition scheme.

Further, the benefit of concessional tax payment under *Notification No. 2/2019 CT (R) dated 07.03.2019* is available in case of a registered person whose aggregate turnover in the preceding financial year does not exceed ₹ 50 lakh.

Thus, in view of the above- mentioned provisions, M/s Indra & bro cannot avail the benefit of concessional tax payment as its aggregate turnover in the preceding financial year is more than ₹ 50 lakh.

(d) An exclusive service provider can opt for the composition scheme only if he is engaged in supply of restaurant services. The composition scheme permits supply of marginal services for a specified value, but only when the same are supplied along with goods and/or restaurant service.

Since M/s Him Naresh is exclusively engaged in supply of services other than restaurant services, it is not eligible for composition scheme even though its turnover in the preceding year is less than ₹ 75 lakh, the eligible turnover limit for Uttarakhand.

However, since M/s Him Naresh is not eligible to opt for composition scheme, its aggregate turnover in the preceding financial year does not exceed ₹ 50 lakh and it is exclusively engaged in supply of services other than restaurant services, M/s Him Naresh is entitled to avail benefit of concessional payment of tax under *Notification No. 2/2019 CT (R) dated 07.03.2019*.

17. (a) Section 22(1) of the CGST Act, 2017 read with *Notification No. 10/2019 CT dated 07.03.2019 inter alia* provides that every supplier who is **engaged in intra-State exclusive supply of goods** is liable to be registered under GST in the State/ Union territory from where he makes the taxable supply of goods only when aggregate turnover in a financial year exceeds ₹ 40,00,000.

However, the above provisions are not applicable to few specified States, *i.e.* States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura, Uttarakhand.

Further, a person exclusively engaged in the business of supplying goods and/or services that are not liable to tax or are wholly exempt from tax is not liable to registration in terms of section 23(1)(a) of CGST Act, 2017.

In the given case, the turnover of the company for the half year ended on 30.09.20XX is ₹ 45 lakh which is more than the applicable threshold limit of ₹ 40 lakh. Therefore, as per above mentioned provisions, the company should be liable to registration. However, since LMN Pvt. Ltd. supplied exempted goods till 31.10.20XX, it was not required to be registered till that day, though voluntary registration was allowed under section 25(3) of the CGST Act, 2017.

However, the position will change from 01.11.20XX as the supply of goods become taxable from that day and the turnover of company is above ₹ 40 lakh. It is important to note here that in terms of section 2(6) of the CGST Act, 2017, the aggregate turnover limit of ₹ 40 lakh includes exempt turnover also.

Therefore, turnover of 'X' will be considered for determining the limit of ₹ 40 lakh even though the same was exempt from GST. Therefore, the company needs to register within 30 days from 01.11.20XX (the date on which it becomes liable to registration) in terms of section 25(1) of the CGST Act, 2017.

- (b) Section 18(1)(a) of the CGST Act, 2017 provides that a person who has applied for registration within 30 days from the date on which he becomes liable to registration and has been granted such registration shall be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which he becomes liable to pay tax under the provisions of this Act.

Thus, LMN Pvt. Ltd. cannot avail credit for additional machinery purchased exclusively for manufacturing X as input tax credit of only inputs is allowed when a person gets registered for the first time.

18. As per section 22 of the CGST Act, 2017 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

- (i) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
- (ii) ₹ 20 lakh for the States of States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.
- (iii) ₹ 40 lakh for rest of India.

The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

- (i) ₹ 10 lakh for the States of Mizoram, Tripura, Manipur and Nagaland.
- (ii) ₹ 20 lakh for the rest of India.

As per section 2(6) of the CGST Act, 2017, aggregate turnover includes the aggregate value of:

- (i) all taxable supplies,
- (ii) all exempt supplies,
- (iii) exports of goods and/or services and
- (iv) all inter-State supplies of persons having the same PAN.

The above is computed on all India basis.

In the light of the afore-mentioned provisions, the aggregate turnover of Mahadev Enterprises is computed as under:

Computation of State-wise aggregate turnover of Mahadev Enterprises

Particulars	Himachal Pradesh	Uttarakhand	Tripura
	(₹)*	(₹)*	(₹)*
Intra- State sale of taxable goods	22,50,000	-	7,00,000
Intra-State sale of exempted goods	-	-	6,00,000
Interest received from banks on the fixed deposits [Note-1]	-	-	60,000
Intra-State sale of non-taxable goods [Note-2]	-	21,00,000	40,000
Aggregate Turnover	22,50,000	21,00,000	14,00,000

Notes:

1. Services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount (other than interest involved in credit card services) is exempt vide *Notification No. 12/2017 CT (R) dated 28.06.2017*. Since aggregate turnover includes exempt supply, interest received from banks on the fixed deposits, being exempt supply, is included in the aggregate turnover.
2. As per section 2(47) of the CGST Act, 2017, exempt supply includes non-taxable supply. Thus, intra -State supply of non-taxable goods in Uttarakhand, being a non-taxable supply, is an exempt supply and is, therefore, included in the aggregate turnover.

In the given case, Mahadev Enterprises is engaged in exclusive intra-State supply of goods from Himachal Pradesh and Uttarakhand and in supply of both goods and exempted services from Tripura, the threshold limit for registration will be ₹ 40 lakh, ₹ 20 lakh and ₹ 10 lakh respectively.

Further, since Mahadev Enterprises also makes taxable supply of goods from one of the specified Special Category States (i.e. Tripura), the threshold limit for registration will be reduced to ₹ 10 lakh.

- (1) Thus, in view of the above-mentioned provisions, Mahadev Enterprises is liable to be registered under GST law with the aggregate turnover amounting to ₹ 57,50,000 (computed on all India basis). The applicable threshold limit of registration in this case is ₹ 10 lakh.
 - (2) (a) If Mahadev Enterprises is dealing in supply of goods only from Himachal Pradesh, the applicable threshold limit of registration would be ₹ 40 lakh. Thus, Mahadev Enterprises will not be liable for registration as its aggregate turnover would be ₹ 22,50,000.
 - (b) If Mahadev Enterprises is dealing in taxable supply of goods and services only from Himachal Pradesh then higher threshold limit of ₹ 40 lakh will not be applicable as the same applies only in case of exclusive supply of goods. Therefore, in this case, the applicable threshold limit will be ₹ 20 lakh and hence, Mahadev Enterprises will be liable to registration.
 - (c) In case of inter-State supplies of taxable goods, section 24 of the CGST Act, 2017 requires compulsory registration irrespective of the quantum of aggregate turnover. Thus, Mahadev Enterprises will be liable to registration.
- 19** *Circular No. 11/11/2017 GST dated 20.10.2017* has clarified that supply of books printed with contents supplied by the recipient of such printed goods, is composite supply and the question, whether such supplies constitute supply of goods or services would be determined on the basis of what constitutes the principal supply.

Principal supply has been defined in section 2(90) of the CGST Act as supply of goods or services which constitutes the predominant element of a composite supply and to which any other supply forming part of that composite supply is ancillary.

In the case of printing of books where content is supplied by the publisher or the person who owns the usage rights to the intangible inputs while the physical inputs including paper used for printing belong to the printer, supply of printing [of the content supplied by the recipient of supply] is the principal supply and therefore, such supplies would constitute supply of service.

Thus, in view of the above-mentioned provisions, the supply of training material by the Durga Printing House would constitute supply of services.

20. Section 107(6) of the CGST Act, 2017 provides that no appeal shall be filed with the Appellate Authority unless the applicant has paid in full, such part of the amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him and a sum equal to 10% of the remaining amount of tax in dispute arising from the said order subject to a maximum of ₹ 25 crore. Thus, the amount of pre-deposit for filing an appeal with Appellate Authority cannot exceed ₹ 25 crore.

Thus, in the given case, the amount of pre-deposit for filing an appeal with the Appellate Authority against the order of Joint Commissioner, where entire amount of tax is in dispute, is:

(i) ₹ 28 crore [10% of the amount of tax in dispute, viz. ₹ 280 crore]

or

(ii) ₹ 25 crore,

whichever is less.

= ₹ 25 crore.

Further, section 112(8) of the CGST Act, 2017 provides that no appeal shall be filed with the Appellate Tribunal unless the applicant has paid in full, such part of the amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him and a sum equal to 20% of the remaining amount of tax in dispute, in addition to the amount paid as pre-deposit while filing appeal to the Appellate Authority, arising from the said order subject to a maximum of ₹ 50 crores.

Thus, in the given case, the amount of pre-deposit for filing an appeal with the Appellate Tribunal against the order of the Appellate Authority, where entire amount of tax is in dispute, is:

(i) ₹ 56 crores [20% of the amount of tax in dispute, viz. ₹ 280 crores]

or

(ii) ₹ 50 crores,

whichever is less.

= ₹ 50 crores.

21. (i) Section 17(5)(c) of the CGST Act, 2017 blocks input tax credit in respect of works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service.

Further, the term “plant and machinery” means apparatus, equipment and machinery fixed to earth by foundation or structural support that are used for making outward supply of goods and/or services **and includes such foundation or structural support** but excludes land, building or other civil structures, telecommunication towers, and pipelines laid outside the factory premises.

Thus, in view of the above-mentioned provisions, ITC is available in respect of works contract service availed by MBF Ltd. as the same is used for construction of plant and machinery which is not blocked under section 17(5)(c) of the CGST Act, 2017.

- (ii) Section 17(5)(d) of the CGST Act, 2017 blocks ITC on goods and/or services received by a taxable person for construction of an immovable property (other than plant and machinery) **on his own account** even though such goods and/or services are used in the course or furtherance of business. Thus, ITC on goods and/or services used in the construction of an immovable property is blocked only in those cases where the taxable person constructs the immovable property for his own use even if the immovable property being constructed is used in the course or furtherance of his business.

In the given case, taxable person has used the goods and services for construction of immovable property for some other person and not on its own account. Hence, ITC in this case will be allowed.

- (iii) As per section 17(5) of the CGST Act, 2017, ITC is allowed on repair and maintenance services relating to motor vehicles, which are eligible for input tax credit. Further, as per section 17(5)(a) ITC is allowed on motor vehicles which are used for transportation of goods.

Thus, ITC on maintenance & repair services availed from “Jaggi Motors” for a truck used for transporting its finished goods is allowed to ABC Ltd.

22. **Computation of export duty**

Particulars	Amount (US \$)
FOB price of goods [Note 1]	50,000
	Amount (₹)
Value in Indian currency (US \$ 50,000 x ₹ 70) [Note 2]	35,00,000
Export duty @ 8% [Note 3]	2,80,000

Notes:

1. As per section 14(1) of the Customs Act, 1962, assessable value of the export goods is the transaction value of such goods which is the price actually paid or payable for the goods when sold for export from India for delivery at the time and place of exportation.
 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 the CBIC on the date of presentation of shipping bill of export.
 3. As per section 16(1)(a) of the Customs Act, 1962, in case of goods entered for export, the rate of duty prevalent on the date on which the proper officer makes an order permitting clearance and loading of the goods for exportation, is considered.
23. (i) **Yes.** The duty credit scrips and goods imported or domestically procured against them are freely transferable.
- (ii) **No.** Utilization of duty credit scrip is not permitted for payment of GST for procurement from domestic sources.
- (iii) The duty credit scrip will be valid for 18 months from date of issue.
- (iv) **Yes.** Exports of leather footwears through courier using e-commerce of FOB value of ₹ 5,00,000 per consignment are eligible for MEIS.
24. As per section 9A(1A) of the Customs Tariff Act, 1975, following are the ways that would constitute circumvention (avoiding levy of duty by unscrupulous means) of antidumping duty imposed on an article that may warrant action by the Central Government:
- (i) altering the description or name or composition of the article subject to such anti-dumping duty,
 - (ii) import of such article in an unassembled or disassembled form,
 - (iii) changing the country of its origin or export, or
 - (iv) any other manner, whereby the anti-dumping duty so imposed is rendered ineffective.

In such cases, investigation can be carried out by Central Government and then anti-dumping can be imposed on such articles.

25. Rule 7 of the Customs and Central Excise Duties Drawback Rules, 2017 provides that application for Special Brand Rate cannot be made where a claim for drawback under rule 3 or rule 4 has been made.

In other words, where the exporter has already filed a duty drawback claim under All Industry Rates (AIR) Schedule, he cannot request for fixation of Special Brand Rate of drawback. Thus, the exporter should determine prior to export of goods, whether to claim drawback under AIR or Special Brand Rate.

Note: GST law has been subject to frequent changes since its inception. Although many clarifications have been 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 November, 2019 Examination

Paper 7 : Direct Tax Laws

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

The provisions of direct tax laws, as amended by the **Finance Act, 2018**, including significant notifications and circulars issued up to 30th April, 2019, are applicable for November, 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 November, 2019 examination. The RTP for November, 2019 examination would contain the Statutory Update (Circulars and Notifications). The Judicial Update (Significant Select Case Laws) would be webhosted at the BOS Knowledge Portal.

Paper 8 : Indirect Tax Laws

The following are applicable for November, 2019 examination:

- (i) The provisions of CGST Act, 2017 and IGST Act, 2017 as amended by the CGST Amendment (Act), 2018 and IGST Amendment (Act), 2018 including significant notifications, circulars issued upto 30th April, 2019.
- (ii) The provisions of the Customs Act, 1962, as amended by the Finance Act, 2018, including significant notifications and circulars issued up to 30th April, 2019.

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)
Part-I: Goods and Services Tax		
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 including reverse charge;	(i) Rate of tax prescribed for supply of goods * (ii) Rate of tax prescribed for supply of services * (iii) Exemptions for supply of goods (iv) Categories of supply of goods,

	Exemption from tax; Composition levy	tax on which is payable on reverse charge basis
1(v)	Input tax credit	(i) Manner of determination of input tax credit in respect of inputs, input services and capital goods and reversal thereof in respect of real estate projects (ii) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
1(vii)	Procedures under GST including registration, tax invoice, credit and debit notes, electronic way bill, accounts and records, returns, payment of tax including tax deduction at source and tax collection at source, refund, job work	(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
1(xvi)	Other Provisions	Transitional Provisions
Part-II: Customs & FTP		
1.(v)	Officers of Customs; Appointment of customs ports, airports etc.	Completely excluded
1.(vii)	Provisions relating to coastal goods and vessels carrying coastal goods	
1.(viii)	Warehousing	
1.(x)	Demand and Recovery	
1.(xi)	Provisions relating to prohibited goods, notified goods, specified goods, illegal importation/exportation of goods	
1.(xii)	Searches, seizure and arrest; Offences; Penalties; Confiscation and Prosecution	
1.(xiii)	Appeals and Revision; Advance Rulings; Settlement Commission	
1.(xiv)	Other provisions	

***Rates specified for computing the tax payable under composition levy and special rate of tax prescribed under Notification 2/2019 CT (R) dated 07.03.2019 [Effective rate 6% - CGST 3% & SGST 3%] are included in the syllabus.**

Notes:

- (1) Amendments made by the Central Goods and Services Tax (Amendment) Act, 2018 and Integrated Goods and Services Tax (Amendment) Act, 2018 [hereinafter referred to as CGST (Amendment) Act, 2018 and IGST (Amendment) Act, 2018 respectively], which are effective as on 30.04.2019, are applicable for November 2019 examination. Consequently, section 8(b), section 17, section 18 and section 20(a) of CGST (Amendment) Act, 2018 which have not been made effective till 30.04.2019 are not applicable for November 2019 examination.

Further, any amendment made by the CGST (Amendment) Act, 2018 or IGST (Amendment) Act, 2018 in any of the topics excluded from the syllabus by way of Study Guidelines as mentioned above, are also excluded. For instance, section 28 of the CGST (Amendment) Act, 2018 which has amended section 140 of the CGST Act, 2017 is not applicable for November 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.

- (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 November 2019 examinations. The amendments made by (i) the CGST Amendment Act, 2018 and IGST Amendment Act, 2018 as also the notifications and circulars issued between 01.11.2018 and 30.04.2019 in GST laws and (ii) the notifications and circulars issued between 01.05.2018 and 30.04.2019 in customs law, to the extent covered in the Statutory Update for November 2019 examination alone shall be relevant for the said examination. The Statutory Update have been hosted on the BoS Knowledge Portal.
- (4) Amendments have been made with regard to GST rate on real estate sector in pursuance of the decisions taken by the GST Council in its 33rd and 34th meetings held on 24.02.2019 and 19.03.2019 respectively. In this regard, it may be noted that rate of tax prescribed for supply of services and manner of determination of input tax credit in respect of inputs, input services or capital goods and reversal thereof in respect of real estate projects have been excluded from the syllabus vide Study Guidelines. The remaining amendments made in relation to real estate sector to the extent covered in the Statutory Update for November 2019 examination alone shall be relevant for the said examination.
- (5) The entire content included in the October 2018 edition of the Study Material, **except** the exclusions mentioned in the table above, and the Statutory Update for November 2019 examination shall be relevant for the said examination.