

**FINAL COURSE**  
**(UNDER REVISED SCHEME OF**  
**EDUCATION AND TRAINING)**  
**GROUP – II**

**REVISION TEST PAPERS**  
**MAY, 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, MAY, 2019 – OBJECTIVE & APPROACH

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

### I Objective of Revision Test Paper

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

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

The primary objectives of the RTP are:

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

RTPs contain the following:

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

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.icaai.org](http://www.icaai.org) under the BOS knowledge portal in students section for downloading.

## II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

### 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: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

The Revision Test paper on Strategic Cost Management and Performance Evaluation covers Case Studies/ Questions on the following topics:

S. No.	Topic	About the Problem	Verbs used	Industry
<b>Case Study</b>				
1.	<b>Strategic Cost Management</b>	Case Study on 'Competitive Advantage' and 'Control System'	Evaluate, Recommend, Identify	Airline
2.	<b>Business Excellence Model</b>	Case Study on 'Business Excellence Model'	Apply, Explain, List	Clothing
3.	<b>Performance Measurement</b>	Case Study on 'Value for Money' Concept	Recommend, Identify	Local Government
<b>Case Scenario</b>				
4.	<b>Strategic Cost Management</b>	Case Scenario on 'Porter's Five Forces Model'	Assess	Paper Tubes

Questions				
5.	<b>Performance Measurement</b>	Question on 'Benchmarking' and 'Building Block Model'.	Evaluate, Assess, Analysis	Courier/ Delivery Services
6.	<b>Performance Measurement</b>	Question on 'EVA' and 'ROCE'.	Evaluate, Advise, Assess	Public Utility Service
7.	<b>Cost of Quality</b>	Question on 'COQ'	Analysis, Advise	Electronic Components Manufacturers
8.	<b>Downstream Supply Chain Management</b>	Question on 'Customers Lifetime Value (CLV)'.	Calculate	Multiplex
9.	<b>Standard Costing</b>	Question on 'Planning and Operational Variances'.	Calculate, Interpret	Artificial Snow Games
10.	<b>Total Productive Maintenance</b>	Question on 'OEE'.	Comment	Pharmaceuticals
<i>Every effort has been made to include all possible elucidations for a given case/question aided by outline and well-chosen photographs for quick industry reference.</i>				

### PAPER 7: DIRECT TAX LAWS AND INTERNATIONAL TAXATION

The syllabus of this paper is divided into two parts, namely, Part I: Direct Tax Laws (70 Marks) and Part II: International Taxation (30 Marks).

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

The September 2018 edition of the Study Material, comprising of four modules (Modules 1, 2 and 3 on Part I: Direct Tax Laws and Module 4 on Part II: International Taxation), is applicable for May, 2019 Examination.

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. The amendments made by the Finance Act, 2018 and latest notifications and circulars have been given in *italics/bold italics*. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the exercise questions at the end of each chapter to hone your problem solving skills.

Compare your answers with the answers given to test your level of understanding. Read the case laws given at the end of each chapter under “Significant Select Cases”.

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

Before you work out the questions in Section B of the RTP, do read the Statutory Update given in Section A. The Judicial Update would be webhosted at the BoS Knowledge Portal on the Institute’s website [www.icaai.org](http://www.icaai.org).

Students may refer to the January, 2019 issue of the Students’ Journal “The Chartered Accountant Student” for a quick recap of Chapters 1 to 8 discussed in Module 4- Part II: International Taxation of the Study Material.

### PAPER – 8: INDIRECT TAX LAWS

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

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

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

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

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

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

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

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you



understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding. Read the case laws given at the end of each chapter under “Significant Select Cases” in module on customs laws.

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

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



## PAPER – 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

### \*\*\*CASE STUDY\*\*\*

#### Competitive Advantage and Control System

##### Airline Industry



1. **Wings International** is a major airline operating from India. It is the biggest airline operator within the domestic airline segment and is a well-established player in the international airline segment. Except for a period of few years as outlined below, Wings International has been operating for the last 3 decades in a segment that caters primarily to the business and premium segment travellers. On its international routes and certain long distance, yet busy domestic routes, the airline offers full service on-board. The ticket price includes on board entertainment, transfer of baggage between flights, more leg room, option to upgrade from economy to business class seats, meals and beverages etc. Baggage allowance is liberal with each flyer being allowed 2 checked in baggage and a cabin baggage. A tag line in its advertising goes “GRAB YOUR BAGS, THEY FLY FREE”. In the domestic segment, the airline operates across major metro cities and certain other tier-2 cities. International flights operate only from these major metro cities.

Indian aviation industry has been growing exponentially in the recent years due to a thriving economy. Consequently, there have been many new entrants in the domestic segment, offering low-cost fares to customers. These airlines have been offering tickets at huge discounts, thereby attracting a sizable chunk of customers away from Wings International. To counter this and maintain its market share, Wings International also followed suit. For a period of five years, tickets on various domestic routes were offered at low competitive price. At the same time, low fares can be offered only if it is profitable to do so. Therefore, certain cost management measures were undertaken. Wings International converted to a “no-frills” airline on most of the domestic routes. Now a ticket covered only the cost of the seat and 1 checked in baggage and 1 cabin baggage. Going further, baggage allowance was reduced to economize on space and fuel requirements. To avail any other facility, the flyer wanted had to purchase extra. Another measure taken was to offer last-minute deals of tickets at a heavy discount if the flight is not fully occupied. Vacant seats are “perishable”, therefore instead of letting them go empty, the flight can be filled at cheaper rates. This yield management measure based on capacity utilization was expected to increase market share and subsequently the airline’s revenue. Tickets could be booked online using the internet rather than through ticket kiosks maintained by the airline at various locations in selected cities.

In order to quickly respond to a competitor's move, the pricing and marketing staff were given sufficient autonomy to make this price war work. Therefore, in many situations, decisions could be taken even without the prior approval of the top management. Meanwhile adding to the stiff competition, fuel prices have been soaring in the last few years. Maintenance of aircrafts, staff compensation and other overheads have also been increasing. Landing fees in major airports have increased manifold due to congestion and limited slots on account of multiple airline operators vying for limited slots.

Given this scenario, after 5 years of operations, the management at Wings International found that they were not able to generate sufficient profits on many of the domestic routes. A price discount by a competitor had to be matched with a similar price discount by Wings International and vice versa. Offering last minute deals to fill up capacity did not generate additional revenue. The volume of last minute flyers was low. It was found that most flyers booking at the last minute were anyway "price indifferent". Had the deals not been offered, the flyer would have been willing to pay more money anyway to use the airline. Therefore, neither did these deals generate extra customers nor extra revenue.

Wings International has always been perceived to cater the premium segment traveler, therefore participating in this price war had been contrary to its image of a premium quality airline. This left a section of the customers confused about the product offering. Therefore, the management of Wings International decided to discontinue its discount pricing strategy and exit the "low cost" airline business. The tickets are now being offered at its usual "full service" rates. This strategy is proposed to be followed for both current and prospective projects and operations.

The government has been formulating policies that are aimed at changing the landscape of the aviation sector. Airports are being built in smaller cities and towns that until date did not have one. This will improve connectivity within the country. It will increase air traffic as the public now has an alternate means to travel other than road and rail transport. Instead of flying between two small airports directly, Wings International proposes to develop a model where flyers from smaller towns are connected to one of the major metro cities which will serve as a main hub. For Wings International, the cost of operations will be lower as compared to flying point to point between the two small airports. For the passengers, better connectivity and more route options will be available. For example, a flyer from a smaller city, wanting to go to a destination abroad can now reach the nearest hub by flying with Wings. From the hub, Wings International can fly the passenger further to the desired destination abroad in its international fleet. For the flyer, this is a better alternative as compared to reaching the hub by say road transport. For Wings International, the proposition broadens its customer base. To this effect, Wings International is already scouting the market for smaller aircrafts that can be operated more economically on the hub-spoke route. Also, it is in talks with for partnership with other airlines, hotels, car rentals in order to offer attractive holiday packages to

customers. Since most of the other airlines do not have the scale of operations to achieve the “hub-spoke” model or the ability to offer holiday packages, Wings International identifies this as a unique proposition that it can offer its customers. This time the proposed tag line for its advertisement would be “WINGS TO FLY ANYWHERE, ANYTIME”. Also, Wings International proposed to increase the turnaround time of flights for better capacity utilization.

Ticket booking is still offered over the internet. In the past, customers like this option due to the convenience it offered. Dedicated customer service lines available 24×7 to resolve issues is proposed.

The management of Wings International wants to have a seamless implementation of this project. This could be a game changer for the company that will help it consolidate its position in the aviation industry. Therefore, a meeting has been called to discuss critical reporting that needs to be in place that ensures a successful launch.

**Required**

- (i) EVALUATE the strategy adopted by Wings International in becoming a “no frills” airline.
- (ii) IDENTIFY the strategy adopted by Wings International for the proposed project.
- (iii) The entire strategy of Wings International for the proposed project depends on information available about the future outlook in the industry. RECOMMEND guidelines to the management to put in place a control reporting mechanism that can enable Wings International to take preventive measures to avoid errors in its strategy.
- (iv) In its previous venture, it took 5 years for Wings International to decide to exit the “no frills” airline operations. To avoid a delay in taking such decisions, RECOMMEND guidelines to the management to put in place a control reporting mechanism that can enable Wings International to correct its errors and make changes in its operations in a more- timely manner.

**Business Excellence Model**

**Clothing Industry**



- 2. As a guest lecturer at a symposium for Business Excellence where you are giving a lecture on “Sustaining Business Excellence”. A manufacturer of a fashion clothing line is one of the participants at the symposium. He has the following query:

*"We are an apparel company that manufacture and sell our fashion clothing and accessories directly through 30 stores spread across India. Shortly we are planning to establish similar outlets overseas. Our business is under constant change due to changing customer trends. At the same time, we are the largest company in our industry segment in India, both in terms of market share and profits. We have a satisfied base of customers who are loyal to our brand. Shareholders are also satisfied stakeholders due to good returns provided on their investments. What would be the relevance of Business Excellence model to our company?"*

*Thank you!"*

You are required to frame an appropriate response to this query.

**Required**

- (i) EXPLAIN the importance of business excellence to an organization.
- (ii) LIST the tool available to achieve and sustain excellence.
- (iii) APPLY the fundamentals of EFQM model on the apparel company.
- (iv) EXPLAIN the relationship between various criteria of the model in general terms.

**Value for Money**

**Not for Profit Sector**



3. The town of **Silver Sands** is located along the coast of the Caribbean Sea. Known for its beautiful coastline and pleasant weather, the town attracts a lot of tourists from all around the world. The town has two beaches that are maintained by the local government and can be used by the general public. In order to preserve the natural ecosystem, other beaches on the coastline are not accessible to the general public. Tourism is the main source of livelihood for its residents. Consequently, cleanliness of beaches is of paramount importance in order to sustain and develop this industry.

The local government has recently employed a contractor to clean up the beaches using beach cleaning machines. The contractor has been selected through a competitive tendering / bidding process. The contractor uses sand cleaning machines that are pulled by tractors. Sand is scooped onto a conveyor or screening belt. It is either raked through (combed using prongs) or sifted through (filtered), in order to separate the waste from the sand. The cleaned sand is left behind on the beach while the waste is removed. Majority

of the litter comprises of plastic waste (bags, bottles etc.) while some portion also includes sea weed, glass, aluminum cans, paper, timber, and cardboard. A detailed log is kept by the contractor about the stretch of beach that has been cleaned, time taken for the clean-up, number of tractors used etc. This log is also checked and signed by a local government official. This record is used to process payments at the end of the month.

In addition to contracting with the vendor to clean machines, the local government has also placed bins at various locations on the beach for the public to dispose their waste. The town's municipality workers clean these bins every morning. Again, detailed logs of the man power and other resources employed is kept by the responsible department. In addition, the government has opened a mobile messaging system, whereby the public can message the government department if they find litter anywhere in the beach. Depending on whether it is from overflowing bins or buried debris in the sand, the municipality workers or the contractor will take action to clear it within 24 hours. A detailed log of these operations is also maintained. Patrons can also suggest measures for improving cleanliness on the beaches.

Due to its importance to the economy, the local government has allotted substantial budget for these operations. At the same time, it is essential to know if this is sufficient for the purpose of keeping the beaches clean. Therefore, the government wants to assess whether the town is getting "good value for money" from this expenditure. The "value for money" concept can be looked at from three perspectives: (i) economy, (ii) efficiency and (iii) effectiveness. The Internal Audit (IA) department that has been requested to undertake this study, has requested for guidelines on whether the audit should focus on economy and efficiency of the beach cleaning operations or on effectiveness of the same. Economy and efficiency audit assess whether the same level of service can be procured at lower cost or resources while effectiveness audit assess whether better service can be procured at same cost.

Depending on the outcome of the audits, if required, policy decisions like requesting for additional funding from the state government, alternate policy measures like levying penalty for littering etc. can be taken.

**Required**

Prepare a letter addressed to the IA department.

- (i) RECOMMEND guidelines to assess *economy and efficiency* of beach cleaning operations.
- (ii) RECOMMEND guidelines to assess *effectiveness* of beach cleaning operations.
- (iii) IDENTIFY challenges involved in assessment of *effectiveness*?
- (iv) RECOMMEND general guidelines, how the audit team may conclude the audit based on the combined outcomes of economy, efficiency, and effectiveness?

## xxxCASE SCENARIOxxx

## Porter's Five Forces Model

## Paper Tubes



4. **WDG** is a family owned business. The family owns 80% of the shares. The remaining 20% is owned by six non-family shareholders. It manufactures Cardboard Boxes for customers which are mainly manufacturers of shoes, cloths, crackers etc. Now, the board is considering to join the Paper Tubes market as well. Paper Tubes, also known as Cardboard Tubes, are cylinder-shaped components that are made with Cardboard. Paper Tubes can be used for a wide range of functions. Paper Tubes are usually ordered in bulk by many industries that rely Paper Tubes include food processing, shipping and the postal service, automotive manufacturing, material handling, textile, pulp and paper, packaging, and art etc. The Paper Tubes cost approximately 1% - 3% of the total cost of the customer's finished goods. The information about Paper Tubes is as follows:
- (i) The Paper Tubes are made in machines of different size. The lowest cost machine is of ₹1,89,000 including GST @ 5% and only one operator is required to run this machine. Two days training program is required to enable untrained person to run such a machine efficiently and effectively. A special paper is used in making Paper Tubes and this paper remains in short supply.
  - (ii) Presently, five major manufacturers of Paper Tubes have a total market share of 75%, offer product ranges which are similar in size and quality. The market leader currently has 24% share and the four remaining competitors hold on average 12.75% share. The annual market growth is 3% per annum during recent years.
  - (iii) A current report "Insight on Global Activities of Foreign Based MNCs" released the news that now MNC's are planning to expand their packaging operations in overseas market by installing automated machines to produce Paper Tubes of any size.
  - (iv) Another company, HEG manufactures a small, however increasing, range of Plastic Tubes which are capable of housing small products such as foils and paper-based products. Currently, these tubes are on an average 15% more costly than the equivalent sized Paper Tubes.

**Required**

ASSESS whether WDG should join the Paper Tubes market as a performance improvement strategy?

Note: Use Michael Porter's Five Forces Model



\*\*\*QUESTIONS\*\*\*

**Benchmarking**

**Delivery Services**



5. **PHL**, South Asia's premier express air and integrated transportation & distribution firm, offers a wide range of innovative supply chain services including Express Distribution, 3PL and Consulting. PHL offers innovative logistics solutions to its customers, enabling them to focus on their core competencies. The firm adds maximum value to businesses at every level, right from providing world-class warehousing support to ensuring time-definite deliveries of goods anywhere in Country 'X'. The following information is available:
- (1) Each warehouse of PHL is solely responsible for all customers within a specified area. It collects couriers from customers residing within ambit of its own area for delivery both within the specific area covered by the warehouse and elsewhere in India.
  - (2) After collections of couriers, a warehouse forward them for delivery outside its own area to the warehouses from which the deliveries are to be made to the customers.
  - (3) Therefore, each warehouse must integrate its deliveries to customers to include:
    - (i) couriers that it has collected within its own area; and
    - (ii) couriers that are transferred to it from other warehouses for delivery to customers in its area.
  - (4) Each warehouse's revenue is based on the invoice value of all couriers collected from customers in its area, irrespective of the location of the ultimate distribution warehouse.
  - (5) Each warehouse costs consist its own operating costs plus some allocated proportion including centralised administration services (i.e. salary, legal & professional fees etc.) and distribution centre costs.
  - (6) The management team and all employees of each warehouse are paid incentives which remains payable quarterly. The bonus is based on the achievement of a series of target values by each warehouse.
  - (7) Internal benchmarking is used at PHL as to provide sets of absolute standards that all warehouses are expected to achieve.

- (8) The Annexure exhibit the target values and the actual values achieved for each of a sample group of four warehouses situated in City SG, City HK, City NY, and City NZ.

The target values consist of:

- (i) Warehouse revenue and profitability;
- (ii) Courier delivery services and customer care; and
- (iii) Credit period control and administrative efficiency.

Incentives are based on a points system. It is also used as a stimulus for each warehouse improving the operational effectiveness. One point is awarded in case where the target value for each item in the Annexure is either achieved/ exceeded, and a zero point where the target is not achieved.

#### Annexure

##### Revenue and Profitability

Particulars	Revenue		Profit	
	Target	Actual	Target	Actual
	₹ million	₹ million	₹ million	₹ million
Company Overall	300	360	45	48
Warehouse				
City SG	24.00	22.50	3.60	3.45
City HK	21.00	27.00	3.15	3.60
City NY	18.00	21.00	2.70	3.30
City NZ	27.00	33.00	4.05	4.20

In order to calculate points of each warehouse, actual profit as a % of actual revenue must exceed the target profit as a % of target revenue.

##### Courier Delivery Services and Customer Care

Particulars	Target %	Actual			
		SG %	HK %	NY %	NZ %
<b>Measure (% of total):</b>					
Late collection of couriers	3.00	2.85	3.15	2.70	3.60
Misdirected couriers	6.00	6.30	5.85	4.95	7.65
Delayed response to complaints	1.50	1.05	1.35	1.20	1.80

Delays due to vehicle breakdown	1.50	1.65	2.10	0.45	3.00
<b>Measure (% of revenue):</b>					
Lost items	1.50	0.90	1.35	1.20	2.85
Damaged items	3.00	2.25	3.60	2.25	2.70

**Credit Control and Administration Efficiency**

Particulars	Target %	Actual			
		SG %	HK %	NY %	NZ %
Average debtor weeks	5.50	5.80	4.90	5.10	6.20
Debtors more than 60 days (% of total)	5.00	?	?	?	?
Invoice queries (% of total)	5.00	1.50	1.40	0.80	2.70
Credit notes as a % of revenue	0.50	?	?	?	?

**Other Information**

Particulars	SG '000	HK '000	NY '000	NZ '000
<b>Debtor Aging Analysis (extract)</b>				
Less than 30 days	1,950.00	2,250.00	1,770.00	3,000.00
31–60 days	481.50	199.50	229.50	828.00
<b>Value of Credit Notes</b> raised during the period ('000)	67.50	54.00	42.00	198.00

Note: PHL operates all year round.

**Required**

Prepare a report for the directors of PHL.

- (i) ANALYSE the comparative performance of the four warehouses.
- (ii) ASSESS PHL from perspective of financial performance, service quality, resource utilisation, flexibility, innovation, and competitiveness; and
- (iii) EVALUATE the performance measurement system at PHL.

**Economic Value Added (EVA)****Public Utility**

6. **Water Utilities Services (WUS)** is a parastatal company established with an aim for supply and distribution of water in Mumbai as well as supply of water to the various local authorities for distribution to villages and other small cities adjacent to Mumbai. This involved planning, operating, treating, maintaining, and distributing water resources in the country's urban centres and other areas mandated by Maharashtra Government. Its mission is "To provide sustainable water in a cost effective and environmentally friendly manner to the economy".

The government ensures that WUS does not take advantage of its monopoly position in the regional area by increasing prices. The government controls majority of services through its water regulatory body which determines an acceptable margin level (ROCE) and ensures that the pricing of WUS within these areas does not break this level. The remaining work i.e. a water bottle operation (WBO) is not regulated by government and WUS charges a market rate for water supply in bottle. The regulator compute return on capital employed (ROCE) of WUS based on its own valuation of the capital assets which are used in operation and the profit from those services.

Acceptable level of ROCE set by the regulator is 7.00%. If WUS breach this level, then the company would be penalized. WUS board is trying to improve the performance for the benefit of the shareholders. In order to communicate the objective of maximizing shareholders' wealth, the directors have decided to consider economic value added (EVA) as the key performance indicator.

Compute EVA of WUS based on the following information for the year ending 31 March 2018:

Particulars	Water Distribution Operation (WDO)	Water Bottle Operation (WBO)	Total
	₹ in Crore	₹ in Crore	₹ in Crore
Revenue	555.00	186.00	741.00
Less: Operating Cost	460.00	119.00	579.00
Operating Profit	95.00	67.00	162.00
Less: Finance Charges			46.00
Profit Before Tax			116.00

Less: Tax at 30%		34.80
Profit After Tax		81.20
<b>Capital Employed</b>	<b>2017-18</b>	<b>2016-17</b>
	<b>₹ in Crore</b>	<b>₹ in Crore</b>
Audited Accounts	1,616.20	1,495.00
Determined by the Regulator (for WDO Only)	1,558.00	1,422.00

**Notes**

1. Operating Costs includes:

Particular	2017-18	2016-17
	₹ in Crore	₹ in Crore
Depreciation	118	114
Provision for doubtful debts	4	1
Research and Development	24	–
Other non-cash items	14	12

2. Economic depreciation is ₹166 Crore in 2017-18. In FY 2016-17, economic and accounting depreciation were assumed to be the same.
3. Current year tax paid is (₹18 Crore) and deferred tax provisions of ₹1.50 crore has been adjusted. There was no deferred tax balance before 2017-18. The provision for doubtful debts was ₹9 crore in the 2017-18 balance sheet.
4. Research and development has been non-capitalized. It belongs to a new project that will be developed over five years and is expected to be of long-term benefit to the company. 2017-18 is the first year of this project.
5. Cost of Capital

Equity	14%
Debt (Pre-Tax)	6%

6. Gearing of WUS

Equity	45%
Debt	55%

**Required**

- (i) EVALUATE the financial performance of WUS using EVA.
- (ii) ASSESS whether WUS comply with its acceptable ROCE level.
- (iii) Advise on how to improve profitability.

**Cost of Quality**

7. **Cool Air** Private Ltd. manufactures electronic components for cars. Car manufacturers are the primary customers of these products. Raw material components are bought, assembled and the electronic car components are sold to the customers.

The market demand for these components is 500,000 units per annum. Cool Air has a market share of 100,000 units per annum (20% market share) for its products. Below are some of the details relating to the product:

Selling price	₹2,500 per unit
Raw material cost	₹900 per unit
Assembly & machine cost	₹500 per unit
Delivery cost	₹100 per unit
Contribution	₹1,000 per unit

The customers due to defects in the product return 5,000 units each year. They are replaced free of charge by Cool Air. The replaced components cannot be repaired and do not have any scrap value. If these defective components had not been supplied, that is had the sale returns due to defective units been nil, customers' perception about the quality of the product would improve. This could yield 10% increase in market share for Cool Air, that is demand for its products could increase to 150,000 units per annum.

**Required**

- (i) ANALYZE, the cost of poor quality per annum due to supply of defective items to the customers.
- (ii) The company management is considering a proposal to implement an inspection process immediately before delivery of products to the customers. This would ensure nil sales returns. The cost of having such a facility would be ₹2 crores per annum, this would include materials and equipment for quality check, overheads and utilities, salaries to quality control inspectors etc. ANALYZE the net benefit, if any, to the company if it implements this proposal.
- (iii) Quality control investigations reveal that defective production is entirely on account of inferior quality raw material components procured from a large base of 30 suppliers. Currently there is no inspection at the procurement stage to check the quality of these materials. The management has a proposal to have inspectors check the quality control at the procurement stage itself. Any defective raw material component will be replaced free of cost by the supplier. This will ensure that no product produced by Cool Air is defective. The cost of inspection for quality control (materials, equipment, salaries of inspectors etc.) would be ₹4 crore per annum. ANALYZE the net benefit to the company if it implements this proposal? Please note that scenarios in questions (ii) and (iii) are independent and not related to each other.

- (iv) Between inspection at the end of the process and inspection at the raw material procurement stage, ADVISE a better proposal to implement (a) in terms of profitability and (b) in terms of long term business strategy?

**Customers Lifetime Value (CLV)**

8. **Cineworld** is a movie theater is located in a town with many colleges and universities around it. The town has a substantial student population, most of whom are avid movie goers. Business for Cineworld has been slow in the recent years due to the advent of streaming websites, that show the latest and popular movies online. However, the management of Cineworld continue to feel students would still enjoy the watching movies on big-screen, along with the facilities and ambience that only a movie theater can offer. Accordingly, they have framed a plan to attract students by offering discounts on movie tickets.

The average time a student spends at the college or university is 4 years, which is the average duration of any course. For a nominal one-time subscription fee, Cineworld plans to offer students discounts on movie tickets for a period of 4 years. By attracting more footfalls, Cineworld targets to cross sell it food & beverages and souvenirs. This would help it sustain a reasonable revenue each year.

Cineworld would attract attention to the plan by initially offering free tickets, food and beverage and gift vouchers. This one time initial expense, net of the one-time subscription fee collected, would cost ₹5,000 per student. On subscription to the plan, the viewership and purchases of each student is expected to be as follows:

Particulars	Years 1 and 2	Years 3 and 4
Spend on movie tickets per year	2,000	1,500
Spend on food and beverage per year	4,000	3,000
Spend on souvenirs and accessories per year	2,250	750

*Assumptions*

1. Only 50% of the subscribers are expected to visit the theatres in years 3 and 4.
2. Across all years, only 75% of the subscribers who visit the theatre are expected to buy food and beverage.
3. Only 25% of the subscribers who visit are expected to buy souvenirs in years 1 and 2, and 10% of them in years 3 and 4.

*Given that*

PVIFA of ₹1 for 4 years at 10% = 3.169 and PVIFA of ₹1 for 2 years at 10% = 1.735

**Required**

CALCULATE the customer lifetime value per subscriber for the above plan.

**Planning and Operational Variances**

9. **Ski Slope** had planned, when it originally designed its budget, to buy its artificial ice for ₹10/ per kg. However, due to subsequent innovations in technology, producers slashed their prices to ₹9.70 per kg. and this figure is now considered to be a general market price for the purpose of performance assessment for the budget period. The actual price paid was ₹9.50, as the Ski Slope procurement department negotiated strongly for a better price. The other information relating to that period were as follows:

Original Standards (ex-ante)		Revised Standards (ex-post)		Actual (5,500 units)	
5,500 units × 5 Kgs. × ₹10	₹2,75,000	5,500 units × 4.75 Kgs. × ₹9.70	₹2,53,412.50	27,225 Kgs. × ₹9.50	₹2,58,637.50

**Required**

- (i) CALCULATE the variances for 'Ice' by  
 (a) Traditional Variance Analysis; and  
 (b) An approach which distinguishes between Planning and Operational Variances.
- (ii) INTERPRET the result.

**TPM**

10. **Swastik Pharmaceuticals** Ltd. is producing medication products (pills, balms etc.) and can be called high volume based production environment. There are several different automated production machines located in the plant, through which production of medicines is accomplished and fulfilled the demands. Plant operates in double shift a day each consisting of 8 hours with 30 minutes' lunch break and tea break of 15 minutes. Following data pertains to automated machine 'K-78'.

**K-78****16 January 2019, Wednesday**

Breakdown, repair and start up time	68 minutes
Standard cycle time	2.5 minutes per tablet
Quality loss due to scrap, rework, and rejection	50 tablets
Total quantity produced	280 tablets

**Required**

COMMENT on OEE.



**SUGGESTED ANSWERS/HINTS**

1. (i) Wings International is a premium segment airline charging “full service” rates for its ticket. However, due to intense competition in the domestic market, it adopted a “low-cost advantage” strategy. Low-cost advantage or cost leadership was achieved through following measures:

- (a) Becoming a “no-frills” airline, where the ticket included only the seat and 1 each of cabin and checked in baggage. All other facilities had to be purchased extra.
- (b) Baggage allowance reduced to economize of space within the flight and save on fuel costs.
- (c) Online ticket booking facilitated so that the number of ticket kiosks maintained by the airline were reduced.”

Cost leadership enabled it to offer “low cost” fares to the customers that was generated through (a) giving huge discounts on ticket prices and (b) yield management of ticket price based on capacity utilization of the flight. Although, due to its long-standing image as a premium airline, the transformation to a “no frills” airline could have caused confusion about the product offering in the minds of discerning traveler, who expect higher service quality. This could have eroded the customer base in this segment.

This “Low-cost advantage” strategy did not work due to the following reasons:

- (a) Price war from competitors reduced the ticket prices to levels that were unviable to Wings International.
- (b) Variable prices to fill up flight capacity worked against the airline, since it was found that these flyers, due to their immediate need, may have willing paid a higher price for the ticket than what was offered as part of the deal. These flyers were “price indifferent” which should have been used to Wings International’s advantage and not against it.
- (c) Costs of operations including fuel prices, aircraft maintenance, staff compensation, overheads such as landing fees had been rising in the recent years.

Due to the above reasons, Wings International’s venture as a low-cost airline became unviable.

- (ii) Wings International plans to foray into offering its service to flyer from smaller cities. This time it has adopted a “differentiation advantage” strategy. It is marketing in the following ways as being different from its competitors:

- (a) Offering a “full service” price where high quality facilities are provided to the traveller. Facilities offered ranging from on flight meals and entertainment, better seating options, liberal baggage allowance and transfer facility etc. differentiate Wings’ airlines from its “low cost, no frills” competitors.
- (b) Ability to offer more connectivity to flyers as compared to other airlines using its unique “hub-spoke” model. “Wings to fly anywhere, anytime” is a catchy line to present this concept to potential customers.
- (c) Ability to offer vacation packages due to strategic tie-ups with other airlines and hospitality providers like hotels, car rentals etc.
- (d) Product differentiation can also be made between the road and rail transport providers. It can be based on relative facilities offered and better connectivity, if not based on relative cost of travel.
- (e) Dedicated customer service lines providing support to customers to resolve issues.

Superior quality, customer responsiveness and innovation will enable Wings International to consolidate its position in the industry in the long run.

**(iii) Management Control Report – Feed-forward Control Report**

Management control is required to set performance measure to determine if the desired objectives of the company are being achieved or not. Control is required at every stage before the activity commences, while the activity is being performed and after the activity has been completed. Accordingly, control reports generated could be Feed-forward reports (prior), concurrent reports (during) and feedback reports (after).

When the management of Wings International wants to have a reporting system that enables to take preventive measures, it would need to have a “Feed-forward” control. This control will help measure the error before it actually takes places. Preventive measure can then be taken to change the operational variables to achieve the desired result. Guidelines to implement a “Feed-forward” control are as follows:

- (a) Through planning and analysis is required. In the case of Wings International, the proposal should be planned and analysed at various levels. The strategy of selection of appropriate routes, “full service” pricing, strategic partnerships, financing the proposal need to be taken at a higher level of management. Decisions relating to flight operations, procurement of supplies like fuel, marketing, human resource planning etc. can be done by the management in charge of operations.

- (b) Careful discrimination must be applied in selecting input variables. Planning and analysis should be done in an integrated fashion. There should be synergy in the thinking at an operational level and top management strategic level.
  - (c) Feed forward mechanism should be kept dynamic. Wings International should keep a close watch on the government policies and its implementation in the civil aviation sector. Reporting may be done in pre-determined intervals say a monthly feedforward reporting can be decided upon. Changes to plans should be made in a timely fashion to make them relevant.
  - (d) A model control system should be developed. Authority and responsibility for various functions need to be determined and clearly defined while developing this model.
  - (e) Data on input variables should be collected regularly. For example, Changes in fuel prices, which form a large share of expenses, has to be tracked continuously. If the prices are expected to fluctuate widely, hedging options or long term price agreements with suppliers can be considered.
  - (f) Feed-forward control requires action. At the time of implementation, the control model developed should be followed in order to establish a systematic course of operations.
- (iv) Management Control Report – Feedback Control Report

These are control reports that provide feedback about the operations. It tracks the actual results with the budgeted / forecasted results. These reports in themselves do not cause a change in performance. The management has to take timely action to correct the errors and change its operations, if required.

Guideline to implement this reporting system are as follows:

- (a) Feedback report should disclose both accomplishment and responsibility. As discussed in the feed forward report, Wings International would have already put in place an organizational structure defining individual authority and responsibility. Performance should be tracked accordingly, so that individual performance can be assessed.
- (b) Feedback reports should be extracted promptly. The management has to decide the interval at which these reports need to be generated. The interval should be such, that changes required can be assessed and action can be taken in a timely manner. In the previous instance, Wings International had given autonomy to the marketing and pricing division to take decisions to meet the competitor's actions. It took five years to determine that the project was unviable. However, a timely reporting mechanism such as a feedback report should have been in place to appraise the top management about the decisions taken. This information would have enabled the top management to make an earlier assessment as to the viability of "no frills" airline.

- (c) Feedback reports should disclose trends and relationships. Trends could be customer travelling preferences, deals offered by competitors or other changes in flight operations. Relationships could be supplier relationships, customer relationships, strategic partner relationships etc. Information generated from all these areas should be collated in order to provide proper feedback to the management.
  - (d) Feedback reports should disclose variations from standards. These standards could be from financial budgets or from non-financial metrics identified as key performance indicators. For example, delay in flight operations could be a non-financial metric that can be tracked against an expected standard set in the planning stage. The information metric for actual operations should be assessed in the same manner with which the standard was set. For example, a flight delay in operations could be a delay in arrival beyond 15 mins. This same standard should be used to assess actual performance.
  - (e) Feedback reports should be in a standardized format. It should be easily understood and well presented to the management. Facts should be stated without ambiguity and in a standard manner.
2. (i) Business Excellence is a philosophy for developing and strengthening the management systems and processes of an organization to improve performance and create value for stakeholders. Stakeholders in an organization are not limited to shareholders (business) alone. They include also customers, employees (people) and society. What an organization does impact all the stakeholders in different ways, yet they are all interlinked to each other. Customers' needs are of paramount importance to companies. Yet given uncertain conditions, shareholders demand challenging return on their investments. Employees need more from their company than just their pay-check. They want the company to enable to grow their knowledge and experience that can improve their career growth. Society expects companies to operate ethically and for the overall betterment of the society and environment.

For several years businesses have been operating under challenging circumstances. For example, landline phones have been entirely replaced by mobile phones. Television programs can be watched seamlessly on internet enabled mobile phones. Not just this, today's smartphones have computing capability much more than the computers that were used in Apollo Mission to send the first man to moon! The proliferation of mobile phones has changed not just the telecom industry but also others like communication, banking, e-commerce etc. The pace of change is both exhilarating and challenging.

To manage this complex scenario, a company cannot focus on only one aspect of their operations. Optimize processes, delivery quality to customers, manage employee talents, earn required return on investment while managing to be a socially responsible organization. In short, the company should achieve excellence

in all aspects of its operations. This is business excellence. Business excellence principles emerged because of development of quality drive into traditional business management. It is imperative not just to achieve excellence but also to sustain it.

Business excellence models are holistic tools that help companies develop stakeholder focused strategy. Each operation within a company enables a corresponding result. Business models present a formal, standardized cause effect relationship between different operations (enablers) and their resultant consequences. If the company want to achieve a different result, it has to do things differently. This can be better analysed through these models. Continuous improvement on various operations will ultimately lead to excellence. More importantly, these models need to be used to sustain and maintain excellence to retain their competitive advantage. They are not to be taken as one time exercise by the company. Assessments using this model have to be made periodically so that timely action can be taken to achieve the desired result.

- (ii) Some of the popular business excellence models are (i) the European Foundation Quality Management (EFQM) model (ii) Baldrige Criteria for Performance Excellence (iii) Singapore BE Framework (iv) Japan Quality Award Model and (iv) Australian Business Excellence Framework.
- (iii) The apparel company is a well-established player in the industry. It is a growing company that is looking to expand its operations overseas. To achieve business excellence in this environment, the company could adopt the EFQM model, which is a popular model.

The EFQM model was developed by the European Foundation for Quality Management. The model provides an all-round view of the organization and it can be used to determine how different methods fit together and complement each other. It can help the company understand the cause and effect relationships between what their organization does and the results it achieves. Creating an EFQM Management Document gives the organization a holistic overview of its strategic goals, the key approaches it has adopted and the key results it has achieved.

The fundamental concepts for excellence are the basic principles that describe the essential foundation for any organization to achieve sustainable excellence. With respect to the company they can be detailed as below:

- (a) Adding value to customers: Companies need to understand their customers, their needs, anticipate their needs and make use of opportunities to fulfil their expectations.

In the current case, fashion apparel business is ever changing and dynamic due to the changing trends in customer's tastes. This could differ across locations within India and abroad. In the era of e-commerce, competition would

be cut-throat. Before going to “how” it can meet customer’s needs, the company should be clear on “what” need of the customer it can satisfy. For example, should the company cater to Indian apparel market, western apparel market, men or women or children apparel market etc. Once the “what” is clear, the company should have mechanisms in place to find out and anticipate customer tastes. Accordingly, it should structure its operations to add value to the customers in terms of quality, availability, support, and experience.

- (b) Creating a sustainable future: Society and environment (People and Planet of Triple Bottomline concept) play a major role in ensuring the sustainability of business. A company should have as much positive impact on its surroundings and try to minimize any negative impact on the same. Here, the company should assess the environmental impact of its operations, measures to minimize adverse impacts, business impact on the society etc. For example, leather is contended to be harmful to the environment since it requires the skin of animals specially cattle hide, needs huge amount of energy and chemicals to process it. This has a negative environmental impact. As regards societal impact, suppliers of cloth to the apparel company should not indulge in labor malpractice like child labor and should adhere to safety standards within its factories. The company should procure cloth only from suppliers who adhere to such standards.
- (c) Developing Organizational Capability: Companies need to manage change within the organization and beyond. The company should identify “what it is capable of being great at?” in order to differentiate it from its competitors. For example, the apparel company may have the capability of tracking its inventory at the stores on real time basis. As soon as the inventory falls below a certain level, the stores issues fresh products to stock up. This ensures that there are no stock outs at the retail outlet. This ability to track inventory real time and ability to stock up quickly may be unique to the company that gives it a competitive edge. Another can be the ability to quickly change the apparel production to meet changing trends. Likewise, the company should identify and develop unique capabilities to have a competitive edge in the market.
- (d) Harnessing creativity and innovation: Continuous improvement and innovation brings value to the company. The company should promote a working environment that enables and appreciates creativity and innovation. For example, new apparel designs can be promoted to test the market. If found feasible, the company can go for mass production of the same.
- (e) Leading with vision, inspiration, and integrity: The tone at the top defines the rest of the company. The leaders and management of the company should have a clear vision of what the company wants to achieve, develop strategy to achieve it, work with integrity and ethics. Leaders shape the future of the organization.

- (f) Managing with agility: Agility would be the capability to identify and effectively respond to opportunities and threats. For example, although the apparel company is in an expansionary phase, it should consider the threat, yet opportunity of using e-commerce as a platform to reach out to customers directly. Brick and mortar stores are becoming largely redundant due to online platforms, a threat the company should recognize and act upon.
  - (g) Succeeding through the talent of people: An organization is only as good as the people who work in it. There should be an atmosphere of teamwork that enable achievement of organizational and personal goals. Performance evaluation, reward and recognition programs, training and talent network are ways to cultivate talent within the organization.
  - (h) Sustaining outstanding results: Use of EFQM model is not a onetime exercise. Constant and periodic evaluation is required to keep up and sustain excellence.
- (iv) The criteria of the model are comprised of 5 enablers and 4 results. Enablers covers what an organization does (its objective) and how it does it (strategy, use of resources to achieve it).
- (a) Leadership: A leader defines the organization's culture. They enable the organization to achieve its goals by taking the correct decisions at the correct time. To do this they should have sufficient skill, work as per the company's code of conduct and should be ethical in their dealings.
  - (b) Strategy: Operations should be planned and directed as per a clearly defined strategy. The company's vision and mission statement with respect to its various stakeholders are the goals that the organization wishes to achieve. Strategy (plan) enables the company to achieve these goals.
  - (c) People: Excellence is possible only if the people working in the company wish to achieve it. They must be motivated, recognized, and managed to enable them to work towards the company's vision and mission. The work culture should be that this opens up opportunities for personal development as well. This would cultivate a bond with the organization, which enables people working within to strive for excellence.
  - (d) Partnerships and resources: Effective management of partnerships that the company has with other organizations is critical to success. Partners could be external vendors, suppliers, and service providers. The services of partners enable business to operate smoothly. Resources, both tangible and intangible should be managed optimally. Tangible resources can be financial (cash, bank accounts) and physical assets (machinery, building, land etc.). Intangible resources would be intellectual property rights, information technology, licenses etc. Proper management of resources enables optimal results.

- (e) Processes, Products, and Services: A company exists because of its processes, products, and services. They should be managed and continuously improved to create value to the stakeholders.

Results are what the organization achieves following its operations and decisions. As explained before, the stakeholders of the company are investors (business), people (employees), customers and society. In order to track performance, the company has to develop Key Performance Indicators (KPI)s for each of the stakeholder groups. Results should be tracked periodically. Changes to targets and benchmarks should be continuously made to reflect the current objectives that the company wants to achieve. Some of the results that the company can look at are:

- (a) Customer results: Are the customers of the company satisfied with the products and service? How does the company fare in terms of brand loyalty? Is the customer base growing to indicate increasing market share?
- (b) People results: Does the company have skilled and motivated employees? What is the employee turnover with reasons for the same? Does the company have proper access to hire required talent? Are the employees motivated, trained, recognized, and rewarded for their performance? What is performance measurement system, is it robust and accurate to measure performance?
- (c) Society results: Is the company a good corporate citizen. Are the objectives of corporate social responsibility being met? If the organization is a not for profit organization, is it meeting its objectives and goals?
- (d) Business results: Is a for profit organization achieving the required return on investment, profitability that the shareholders and other investor demand? Has the company been able to manage financial and other risks properly?

Enablers enable achievement of results. EFQM model documents this flow and symbiosis in a structured way. It highlights the strength and weakness of the enablers. With this information, the company can alter its operations and strategy to achieve desired results. On assessment, there is a flow from results to enablers. If the results have been achieved, enablers continue to operate status quo. If the results fall short of targets, changes have to be made to enablers to improve performance.

Therefore, it can be concluded the EFQM model encourages constant self-assessment to achieve excellence.

When a company wins an excellence award based on a business excellence model, it gains in stature within the industry. This recognition could work to its advantage financially and otherwise.



## 3. Date 16- Jan -2019

Dear Sirs,

**Re: The economy, efficiency and effectiveness of beach cleaning activities**

- (i) Economy and efficiency audit of an operation focuses on the consumption of resources and the output achieved. *Economy* assesses the financial aspects of the activity i.e. are the objectives of the activity being achieved at reasonable cost? *Efficiency* assesses the volume of input consumed to derive the desired output i.e. are the resources and funds being consumed to get maximum output?

To look at **Economy of Operations**, cleaning expenses need to be bifurcated into payments made to the contractor and the expenses of emptying waste from bins. Any further subcategories of these expenses, like labour, material, disposal van expenses etc. also need to be collated from the accounting or cost records. These then have to be compared to the budgets that were approved by the government of Silver Sands. The competitive tendering process can be reviewed to ensure that the contractor getting the order is offering the required quality of service at the lowest price. If the quality of cleaning has been achieved, by staying within budget, the operation is economical. However, if the actuals exceed the budget, the government has to compare them with cost of similar cleaning activities carried by neighbouring towns. On comparison, if Silver Sands operations are expensive compared to other towns, it indicates that not only are the operations uneconomical they may not be efficient either.

**Efficiency of Operations** can be determined by checking the log records maintained for beach cleaning by the contractor and municipality workers. These would have detailed of activities carried out and the resources utilized for each of them. For each of these services (beach cleaning and emptying out bins), the cost drivers can be identified and certain metrics can be developed for analysis. For example, the cost of running the tractors can be divided by the total number of tractors operated to get the cost of operations per tractor or alternatively, by the kilometres of beach cleaned to arrive at a tractor-kilometre rate. While analysing these activities, certain operational considerations have to be given. For example, certain stretches of the beaches may take more time or resources to clean due to issues like rocks or soft sand. Therefore, if resources for operations disproportionate for certain parts of the beaches, the cost of maintaining those stretches need to be worked out. Data to get this information will depend on the extent of detailed maintained in the logs. This information has to be tracked over some period of time in order to understand trends in operations and related expenses.

The data collected from the mobile messaging system should also be investigated. How often and in what stretches of the beach are complaints frequent or maximum? Reasons for these lapses need to be taken from the contractor (for beach cleaning

operation) and the concerned department (for emptying bins) in order to find out whether resources are being employed properly.

On this basis, deviations and exceptions should be investigated. The local government can then decide if there can be alternate sites along the coastline that may be more economical and efficient to operate.

- (ii) An audit about **Effectiveness of Operations** would focus how the actual cleanliness of beaches compares with the desired level as laid out in the policy initiative. To assess whether performance has been met, clear guidelines and metrics have to be defined during policy implementation.

To begin with, it should be clear as to what constitutes litter. From an operational angle, it would be difficult to clean out every bit of paper lying on the beach. However, it is possible to pick up every soft drink aluminum can. Hence, the government authorities must be clear on what constitutes litter? Which are the refuse that must be cleared within exception (example food refuse, animal droppings, glass bottles, tin cans, trash bins etc.) and tolerance level for certain other types of litter (e.g. Paper, seaweed etc.) that may get left behind even after cleaning. Quantity of waste collected would be the indicator to make the above assessment.

Certain other parameters like safety standards can also be defined. Safety problems could be cuts from sharp objects like glass, incidents of vector borne diseases in the area or health problems from polluted sea water. Assessment has to be made whether these standards have been met.

For this, the primary source of information about cleanliness would be feedback from the beach patrons. These could be in the form of complaints received directly or those through the mobile messaging system would provide data to work out the metrics. This would be an indicator of "customer satisfaction". Other inputs could also be the suggestions given by the patrons about ways to improve cleanliness on the beach.

Observation by making surprise visits to inspect the beaches immediately after the cleaning operations would also provide sufficient evidence about the effectiveness of operations.

- (iii) **Challenges Involved** in assessment of effectiveness would be:

- (a) *Defining standards* about what constitutes litter and acceptable level of cleanliness? These are subjective guidelines, the perception of which may differ from person to person.
- (b) Beach patrons also play an important role in making this initiative effective. There has to be a conscious civic sense of duty not to litter, failing which this initiative will most likely be ineffective. Therefore, while measuring performance for effectiveness, *collection of more litter does not necessarily indicate effective operations*. More litter requires more cleaning and more

resources, therefore is actually not a positive indicator of effectiveness. On the contrary, in the long run, lesser litter collected to maintain desired level of cleanliness would be a good indicator of effectiveness.

(iv) The outcome of the audits can indicate achievement any or none of the three parameters of economy, efficiency and effectiveness of the beach cleaning operation. To form an **integrated conclusion** based on the different outcomes of individual audits, the audit team may consider the following guidelines:

- (a) Has the objective of the cleaning operation been achieved as per the guidelines in the relevant policy? i.e. have the operations been effective?
- (b) If the answer to (a) is yes, are the expenses within budget. If so, then the operations are economical and efficient. Given that the operations have been effective at the same time economy and efficiency have been achieved, the team can conclude that the cleaning operations policy has been a success.

A cost-over run can also be justified if the operations have been effective. In that case, the audit team has to conclude whether all expenses incurred are indeed justified and that the resources have been put to the best possible use. If not, can the operations be made more economical or efficient?

- (c) If the answer to (a) is no, the operation has not been effective, then is the difference from the target marginal or huge? If the operations have not been entirely effective, but only by a marginal gap say 95% success, then analysis of expenses can be made similar to the point (b) mentioned above. However, if the operations have been ineffective to a larger extent, then the cleaning drive initiative has been ineffective. The government has to look at alternate solutions of tackling the problem. These could include imposing heavy penalty for littering, requesting for more funding from the state government to employ better resources etc.

Therefore, it can be seen that achievement of one objective does not automatically lead to achievement of other objectives. A holistic approach would be needed to draw conclusions about the performance of the cleaning operations.

Should you have any further queries, please do not hesitate to ask.

**Yours Faithfully**

**Management Accountant**

4. To assess the feasibility of joining Paper Tubes market, Michael Porter's 'five forces model' can be used. It analyses the competitive environment of an industry. It is an important tool for understanding the competitive structure of a particular industry. This complete analysis includes five forces: buyer's bargaining power, supplier's bargaining power, the threat of substitute products, the threat of new entrants and the intra industry competition.

While applying this model to the above case, it can be observed that the low cost of the machine along with the fact that an untrained person will only need two day's training as to be able to operate a machine, will form comparatively low costs of entry to the market. Therefore, WDG may reasonably consider *high threat of new entrants*.

Customer's (buyer) power could be high since customers buy Paper Tubes in bulk along with the fact that there is insignificant difference between the products of alternative suppliers. Paper Tubes cost approximately 1% - 3% of the total cost of the customer's finished goods also indicates that *customer's power is high*.

The fact that the special paper from which the tubes are made remain in short supply, signals *high threat from suppliers*. Hence, suppliers may raise their prices that would result in reduction of profit.

Five major players with 75% market share, offer product ranges which are similar in size and quality, besides, the market is a slow growing i.e. annual growth of 3% p.a., indicate *high rivalry among competitors*.

*A little real threat from a substitute product* exist since HEG manufactures a narrow range of Plastic Tubes. This threat might go up if the product range of HEG is expanded or the price of Plastic Tubes goes down sharply.

*Major threat from potential new entrants* can be seen, as foreign-based MNCs are planning to joining this market and it seems that these giant corporations might be able to gain economies of scale from automated machines and large production lines with manufacturing flexibility.

WDG might enter this market due to low capital investment but this would also lead to other potential entrants. The easy entry, threat of substitute, the existence of established competitors in the market, the possible entry of a MNCs, and competitors struggling due to slow growth market are putting the potential of WDG into the question to achieve any sort of competitive advantage.

Joining this market might be a good move, if WDG would be able manufacture Paper Tubes at lowest cost within the industry. To assess feasibility, WDG must take into consideration *all possible synergies* between its existing operations of Card Boxes and the proposed operations of Paper Tubes.

From the available information, joining the market for Paper Tubes does not seem to be attractive. Thus, WDG should go for other alternative performance improvement strategy.

## 5. Report

**To: The Directors of PHL**

**From: Management Accountant**

**Subject: Warehouse Performance**

**Date: 15<sup>th</sup> December 2018**

- (i) NY has achieved the best performance with (12) points. SG and HK have given a reasonable level of performance with (8) points each. NZ is under performed earning only (4) out of the twelve points.

NY is the only warehouse which has achieved both increased revenue and increased profit over targets.

In the courier delivery services and customer care, NY has achieved all (6) of the target standards, SG (4); HK (3). The data of NZ indicates, the need for investigation due to achievement of only (1) out of six targets.

In respect of the credit control and administrative efficiency, HK and NY have achieved all (4) standards and SG has achieved (3) of the four standards. Once again, NZ is the 'bad performer' and achieved only (2) of the four standards.

*(Refer points table)*

- (ii) The terms mentioned in the question might be seen as representative of the dimensions of performance. The analysis of dimensions may be translated into results and determinants.

**Results** are the outcome of decisions and actions taken by management in the past. Measurement of the results may be done by focusing on financial performance and competitiveness. *Financial performance* may be measured in terms of revenue and profit as shown in the points table. The points system shows which warehouses have achieved or exceeded the target. Besides, liquidity is another criterion for the measurement of financial performance. The total points in table showed that HK and NY warehouses appear to be the best performer in aspects of credit control. *Competitiveness* may be assessed in terms of sales growth or in terms of market share or increase in customers etc.

**The determinants** are the factors which may be seen to contribute to the achievement of the results. In other words, Determinants refer to the forward-looking dimensions of Fitzgerald and Moon model, for example- what areas of future performance are most important for PHL to achieve positive financial and competitive results? Quality, resource utilization, flexibility and innovation are the determinants of future success and they are also the contributors to the achievement of competitiveness and financial performance.

In PHL a main *quality* issue seems to be courier delivery services and customer care. Points table shows that the NZ warehouse has a major problem in this area and achieved only (1) point out of the six available.

*Resource utilisation* for PHL is critical to its financial success and may be measured by effective and efficient use of drivers, vehicles, and financial resources. To some extent, such measurement can be seen in the data relating to courier delivery services and customer care. For example, the reason of late collection of couriers from customers may be a shortage of vehicles and/or drivers. Such shortages might

be due to sickness, staff shortage, problems of vehicle availability, vehicle maintenance etc.

*Flexibility* may be an issue like varied range of service as to meet different segment of customer is unavailable. Possibly, a short-term sub-contracting of vehicles or collections or deliveries may help in overcoming late collection problems.

The points table i.e. 'target vs actual' may be considered as an example of *innovation* by PHL. This gives a comprehensive set of measures providing an incentive for improvement at all warehouses. The points table may demonstrate the extent of achievement or non-achievement of PHL strategies for success. For instance – the firm may have a customer care commitment policy which identifies factors that should be achieved on a continual basis. For example, timely collection of couriers, misdirected couriers re-delivered at no extra charge, prompt responses to customer claims and compensation for customers.

- (iii) The performance measurement system used by PHL is simple to use. However, it may be looked upon measuring the right things since the specific measures used in points table encompass a range of dimensions designed to focus the organization on factors essential for PHL's success and not restricted to traditional financial measures.

At PHL, internal benchmarking has been used to provide sets of absolute standards that all warehouses are expected to achieve. This will help to ensure a continuous focus upon the adoption of 'best practice' at all warehouses. Benchmarks on delivery performance give importance to quality of service whereas benchmarks on profitability i.e. target profits focus solely upon profitability.

Incentive schemes have been used at PHL, linking the achievement of firm targets with rewards. It might happen that the profit incentive would act as a booster to each warehouse management team. However, what is required for the prosperity of PHL is a focus of management on the determinants of success rather than the results of success.

### Workings

**Warehouse – Points Table**  
for the year ended 31 March 2018

	SG	HK	NY	NZ	
<b>Revenue and Profit</b>					
Revenue	0	1	1	1	
Profit (see note below)	1	0	1	0	
Total Points earned	...(A)	1	1	2	1
Ranking	II	II	I	II	

<b>Courier Delivery Services and Customer Care</b>				
Late collection of couriers	1	0	1	0
Misdirected couriers	0	1	1	0
Delayed response to complaints	1	1	1	0
Vehicle breakdown delays	0	0	1	0
Lost items	1	1	1	0
Damaged items	1	0	1	1
Total Points earned ... (B)	4	3	6	1
Ranking	II	III	I	IV
<b>Credit Control and Administrative Efficiency</b>				
Average Debtor weeks	0	1	1	0
Debtors more than 60 days	1	1	1	1
Invoice queries (% of total)	1	1	1	1
Credit notes (% of revenue)	1	1	1	0
Total Points earned ... (C)	3	4	4	2
Ranking	II	I	I	III
Total Points ... (A)+(B)+(C)	8	8	12	4

(a) Profit Points Calculation

Actual Results e.g. SG = 3.45/22.50 = 15.3% (1 point); HK = 3.60/ 27.00 = 13.3% (0 point)

(b) Debtors more than 60 days (% of total)

Particulars	SG	HK	NY	NZ
Revenue ('000)	22,500	27,000	21,000	33,000
Debtor weeks	5.80	4.90	5.10	6.20
∴ Debtors ... (A)	2,510	2,544	2,060	3,935
Less than 30 days ... (B)	(1,950)	(2,250)	(1,770)	(3,000)
31–60 Days ... (C)	(481.50)	(199.50)	(229.50)	(828.00)
More than 60 days ... (A) - (B) - (C)	78.50	94.50	60.50	107.00
Debtors in more than 60 days (% of total)	3.13	3.71	2.94	2.72

(c) Value of credit notes raised as a % of revenue e.g. SG = ₹67,500/ ₹2,25,00,000 = 0.30%

## 6. (i) Computation of NOPAT

Particulars	₹ in Crore
Operating Profit	162.00
Add:	
Non-Cash Items	14.00
Accounting Depreciation	118.00
Doubtful Debts	4.00
Research and Development	24.00
Less:	
Economic Depreciation	166.00
Tax Paid	18.00
Tax Saving on Interest (₹46 × 30%)	13.80
NOPAT	124.20

## Computation of Capital Employed

Particulars	₹ in Crore
Capital Employed as on 31.03.2017	1,495.00
Add:	
Provision for Doubtful Debt as on 31.03.2017	5.00
Other Non-Cash Items (incurred in 2016-17)	12.00
Adjusted Opening Capital Employed	1,512.00

$$\text{WACC} = 0.45 \times 14\% + 0.55 \times 6\% \times (1 - 30\%) = 8.61\%$$

$$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{Capital Employed}) = - 5.98 \text{ Crores}$$

## Evaluation

Presently, WUS is distorting value as it is not able to meet the economic cost of its own capital. This put the company into the question of perpetual succession and lead the company against shareholder's interest. The reason could be a higher cost of equity for WUS. The investing risk should be low since 75% of the services that the company renders are important for the economy and demand is guaranteed in future. Optionally, WUS needs to either increase its NOPAT enough for break even on economic value added or slash its capital employed by selling unutilized or under-utilized assets.



(ii) Regulatory ROCE: Target 7.00%

$$\begin{aligned} \text{ROCE} &= \left( \frac{\text{Operating Profit}}{\text{Capital Employed}} \right) \times 100.00\% \\ &= \left( \frac{95}{1,422} \right) \times 100\% \\ &= 6.68\% \end{aligned}$$

The ROCE is within the acceptable ROCE of 7.00%.

(iii) Operating Margins

Water Distribution Operation = 17.12%

Water Bottle Operation = 36.02%

**Advise**

Operating margin from WBO is 36.02% compared to 17.12% (WDO). WUS may use the WDO activities as a trusted source of cash profit to reinvest in expansion of the WBO. Expansion through acquisition of appropriate non-regulated businesses using the cash generated by the regulated activities might be a good decision.

Further, WUS may improve profitability by controlling costs within WDO activities through performance measurement. The regulatory body cannot argue that the company is overcharging its customers to increase profit margin. This is possible through strict observance of expenses and using cost savings techniques through efficiency improvements. In order to control cost within WDO, targets should be based on minimal variances and adopting cost cutting methods.

Overall, In WDO, there is only a limited scope for increase in the operating profit since the maximum operating profit allowed is ₹99.54 crore i.e. 7.00% of ₹1,422 crore of capital employed. Thus, WUS should go to expand its WBO as this is producing higher operating profit margins.

7. (i) Customer demand for Cool Air's products is 100,000 units per annum. However, 5,000 defective units supplied are to be replaced free of charge by the company. Therefore, the total number of items supplied to customers per annum = 100,000 + 5,000 units = 105,000 units. The cost of replacement would include raw material cost, assembly & machining cost and delivery cost of 5,000 units = 5,000 units × (900+500+100) per unit = 5,000 units × ₹1,500 per unit = ₹75,00,000 per annum. Further, had the sale returns not happened, market share would have increased by 50,000 units. Contribution is ₹1,000 per unit, for 50,000 units contribution would be ₹5,00,00,000. Therefore, the cost of poor quality per annum = cost of replacement + contribution from lost sales = ₹75,00,000 + ₹5,00,00,000 = ₹5,75,00,000 per annum.

(ii) Inspection at the end of the process would detect defects before delivery to the customers. This would ensure that the sale returns would be nil. Given in the problem, 5,000 units supplied are defective and would need to be replaced, in other words, they need to be manufactured again. In other words, inspection after production, before delivery to customers would not prevent production of defective units. However, compared to the current scenario, since these defective units have not yet been delivered to the customer, the cost for additional delivery of replaced products would be saved. This savings in the extra delivery cost = 5,000 units × ₹100 per unit = ₹5,00,000 per annum. Further, had the sale returns not happened, market share would have increased by 50,000 units. Contribution is ₹1,000 per unit, for 50,000 units it would be ₹5,00,00,000 per annum. Therefore, the total benefit from the inspection process before delivery to customers = savings on delivery costs + contribution from incremental sales = ₹5,00,000 + ₹5,00,00,000 = ₹5,05,00,000 per annum. The cost to the company to maintain good quality of its products through inspection = ₹2,00,00,000 per annum. Therefore, the net benefit to the company would be ₹3,05,00,000.

(iii) Inspection of raw material at the procurement stage could entirely eliminate defective production. The benefit would be two fold, the current replacement cost for 5,000 units will no longer be incurred. Secondly, due to better customer perception, market share would increase, resulting in an increased contribution / revenue to the company. In other words, the cost of poor quality will be nil.

As explained in solution (i), the cost of poor quality per annum = cost of replacement + contribution from lost sales = ₹75,00,000 + ₹5,00,00,000 = ₹5,75,00,000 per annum. This would be the benefit by implementing the proposal.

Cool Air has to incur an inspection cost to ensure this highest standard of quality (0% defects) which would cost ₹4,00,00,000 per annum. Therefore, the net benefit to the company would be ₹1,75,00,000 per annum.

(iv) (a) The proposal to implement inspection immediately before delivering goods to the customers results in a net benefit of ₹3,05,00,000 per annum. Alternately, the proposal to implement inspection at the raw material procurement stage results in a net benefit of ₹1,75,00,000 per annum. Therefore, from a profitability point of view, inspection immediately before delivery of goods to the customer would be the preferred option.

(b) The drawback of inspection at the end of the production process is that (1) it cannot prevent production of defective goods and (2) information regarding the root cause of defective production, in this case, supply of defective raw materials will not get tracked. Therefore, inspection at the end of production does not contribute to resolving the root cause of defective production. On the other hand, inspection at the procurement stage can eliminate production of defective goods. This will ensure a much higher quality of production, better

utilization of resources and production capacity. Therefore, from a long term strategy point of view, inspection at the raw material procurement stage will be very beneficial. Currently the cost of ensuring this highest quality of production (0% defects) is ₹4 crore per annum. The cost of ensuring 100% quality is quite high, such that the net benefit to the company is lesser than the other proposal. However, due to its long term benefit, Cool Air may consider some minimum essential quality control checks at the procurement stage. Although selective quality check might not ensure complete elimination of defective production, it can contribute towards reducing it. At the same time cost of selective quality check would not be so high as to override its benefits. To determine the extent of quality control inspection, Cool Air should determine its tolerance limit for defective production and do an analysis of the quality / cost tradeoff.

8. Customer lifetime value per subscriber can be found by calculating the present value of the revenue that is generated over the period of 4 years. This netted out with the cost incurred to attract subscribers, would give the customer lifetime value per subscriber.

S. No.	Particulars	Revenue (per year)	PVIFA	PV of Revenue	Probability of Usage	Net Revenue
1.	Net cost of attracting students (onetime expense)					5,000
2.	Net revenue from movie tickets					
	Years 1-2	2,000	1.735	3,470	100%	3,470
	Years 3-4 (refer note 1)	1,500	1.434	2,151	50%	1,076
3.	Sale of food and beverages					
	Years 1-2	4,000	1.735	6,940	75%	5,205
	Years 3-4 (refer note 2)	3,000	1.434	4,302	37.5%	1,613
4.	Sale of souvenirs and accessories					
	Years 1-2	2,250	1.735	3,904	25%	976
	Years (refer note 3)	750	1.434	1,076	5%	54
5.	Total revenue (Steps 2+3+4)					12,394
6.	Net revenue from subscription plan (steps 5-1)					7,394

Note 1:

PVIFA (10%, 4 years) = 3.169 and PVIFA (10%, 2 years) is 1.735. Therefore, PVIF for years 3 and 4 = PVIFA (10%, 4 years) - PVIFA (10%, 2 years) = 3.169 - 1.735 = 1.434.

Note 2:

Only 50% of the subscribers are expected to attend in years 3 and 4. Out of those only 75% are expected to buy food and beverage. Therefore, only 38% of the subscribers (75% of 50% subscribers who visit) are expected to buy souvenirs in years 3 and 4.

Note 3:

Only 50% of the subscribers are expected to attend in years 3 and 4. Out of those only 10% are expected to buy souvenirs. Therefore, only 5% of the subscribers (10% of 50% subscribers who visit) are expected to buy souvenirs in years 3 and 4.

Present value of total revenue generated over the four-year period by a customer is ₹12,393 while the corresponding expense is ₹5,000. Therefore, the customer lifetime value per subscriber is ₹7,393. Cineworld has to multiply this with the expected number of subscribers each year, to find out if this would be a profitable proposition.

**9. (i) (a) Traditional Variances**

$$\begin{aligned} \text{Usage Variance} &= (27,500 \text{ Kgs.} - 27,225 \text{ Kgs.}) \times ₹10 \\ &= ₹2,750 \text{ (F)} \\ \text{Price Variance} &= (₹10 - ₹9.50) \times 27,225 \text{ Kgs.} \\ &= ₹13,612.50 \text{ (F)} \\ \text{Total Variance} &= ₹2,750 \text{ (F)} + ₹13,612.50 \text{ (F)} \\ &= ₹16,362.50 \text{ (F)} \end{aligned}$$

**(b) Operational Variances**

$$\begin{aligned} \text{Usage Variance} &= (26,125 \text{ Kgs.} - 27,225 \text{ Kgs.}) \times ₹9.70 \\ &= ₹10,670 \text{ (A)} \\ \text{Price Variance} &= (₹9.70 - ₹9.50) \times 27,225 \text{ Kgs.} \\ &= ₹5,445 \text{ (F)} \\ \text{Total Variance} &= ₹10,670 \text{ (A)} + ₹5,445 \text{ (F)} \\ &= ₹5,225 \text{ (A)} \end{aligned}$$

**Planning Variances**

$$\begin{aligned} \text{Usage Variance} &= (27,500 \text{ Kgs.} - 26,125 \text{ Kgs.}) \times ₹10 \\ &= ₹13,750 \text{ (F)} \\ \text{Price Variance} &= (₹10 - ₹9.70) \times 26,125 \text{ Kgs.} \end{aligned}$$

$$\begin{aligned}
 &= ₹7,837.50 \text{ (F)} \\
 \text{Total Variance} &= ₹13,750 \text{ (F)} + ₹7,837.50 \text{ (F)} \\
 &= ₹21,587.50 \text{ (F)}
 \end{aligned}$$

**(ii) Interpretation**

It is important to note that an innovation in technology is outside the control of Ski Slope and is, by nature, a planning ‘error’. Equally, the better negotiation of a price should be recognised as an operational matter. Operational variances are self-evidently under the control of operational management, so operational efficiency must be assessed with only these figures in mind. The material procurement department has clearly done well by negotiating a price reduction beyond the market dip. One might question the quality of the ice, as the usage variance is adverse (possibly the ice fails to cover the field and so more is required). Obviously, the favourable price variance is smaller than the adverse usage variance, thus, overall performance is quite poor. A supervisor cannot assess variances in isolation from each other.

**10. Calculation of Loss of Time Per Shift**

	Mins.
Lunch Break	30
Tea Break	15
Breakdown, Repair, and Startup Time (68 mins / 2 Shift)	34
<b>Total Time Loss Per Shift</b>	<b>79</b>

$$\begin{aligned}
 \text{Availability Ratio per shift} &= \left\{ \frac{480 \text{ mins.} - 79 \text{ mins.}}{480 \text{ mins.}} \right\} \times 100\% \\
 &= 83.54 \%
 \end{aligned}$$

$$\text{Actual Production} = 140 \text{ tablets per shift}$$

$$\text{Standard time} = 2.5 \text{ minutes}$$

$$\text{Standard Time Required} = 140 \text{ units} \times 2.5 \text{ minutes}$$

$$= 350 \text{ minutes}$$

$$\text{Actual Time Taken} = 480 \text{ mins.} - 79 \text{ mins.}$$

$$= 401 \text{ minutes}$$

$$\begin{aligned}\text{Performance Ratio} &= \left\{ \frac{350 \text{ mins.}}{401 \text{ mins.}} \right\} \times 100\% \\ &= 87.28\% \\ \text{Quality Ratio} &= \left\{ \frac{140 \text{ tab.} - 25 \text{ tab.}}{140 \text{ tab.}} \right\} \times 100\% \\ &= 82.14\% \\ \text{Thus, OEE} &= 0.8354 \times 0.8728 \times 0.8214 \\ &= 59.89\%\end{aligned}$$

**Comment**

Since OEE of Swastik Pharmaceuticals Ltd. is lesser than 85 % i.e. World Class Performance Level, Company is advised to improve its each ratio i.e. availability ratio, performance ratio and quality ratio by collecting information related to all downtime and losses on machines, analyzing such information through graphs and charts, making improvement decisions thereon like autonomous maintenance, preventive maintenance, reduction in set up time etc. and implementing the same.

## **PAPER – 6A to 6F [ELECTIVE PAPERS]**

**PAPER – 6 A : RISK MANAGEMENT**

**PAPER – 6 B : FINANCIAL SERVICES AND CAPITAL MARKET**

**PAPER – 6 C : INTERNATIONAL TAXATION**

**PAPER – 6 D : ECONOMIC LAWS**

**PAPER – 6 E : GLOBAL FINANCIAL REPORTING STANDARDS**

**PAPER – 6 F : MULTIDISCIPLINARY CASE STUDY**

These papers are open book and case study based. Case Studies on all the above elective subjects have been webhosted at the BoS Knowledge Portal.

## PAPER 7: DIRECT TAX LAWS & INTERNATIONAL TAXATION

### SECTION – A: STATUTORY UPDATE

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

### PART – I : DIRECT TAX LAWS

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

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

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

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

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

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



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

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

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

#### Chapter 6: Profits and gains of business or profession

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

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

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

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

#### Chapter 7: Capital Gains

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

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

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

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

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

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

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

### Chapter 8: Income from Other Sources

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

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

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

Earlier the Central Government had, vide Notification No. 45/2016, dated 14.6.2016, notified classes of persons, i.e., a person defined under section 2(31) of the Income-tax Act, 1961, being a resident, who makes payment of an amount exceeding the face value of shares of the “startup” company, as consideration for issue of such shares.

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

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

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

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

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

### Chapter 15: Deduction, Collection and Recovery of Tax

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

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

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

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

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

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

### Chapter 18: Appeals and Revision

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

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

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

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

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

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

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

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

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

- (a) Where the Constitutional validity of the provisions of an Act or Rule is under challenge, or

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

## PART - II: INTERNATIONAL TAXATION

### 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
<b>Determination of opening WDV</b>	<b>If the foreign company is assessed to tax in the foreign jurisdiction</b> <b>Where depreciation is required to be taken into account for the purpose of computation of its taxable income</b> , the WDV of the depreciable asset as per the tax record in the foreign country on the 1 <sup>st</sup> day of the previous year shall be adopted as the opening WDV for

	<p>the said previous year.</p> <p><b>Where WDV is not available as per tax records</b>, 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 1<sup>st</sup> day of the previous year shall be adopted to be the opening WDV for the said previous year.</p> <p><b><u>If the foreign company is not assessed to tax in the foreign jurisdiction</u></b></p> <p>WDV of the depreciable asset as appearing in the books of account as on the 1<sup>st</sup> 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>
<b>Brought forward loss and unabsorbed depreciation</b>	<p><b><u>If the foreign company is assessed to tax in the foreign jurisdiction</u></b></p> <p>Brought forward loss and unabsorbed depreciation as per the tax record shall be determined year wise on the 1<sup>st</sup> day of the said previous year.</p> <p><b><u>If the foreign company is not assessed to tax in the foreign jurisdiction</u></b></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 1<sup>st</sup> day of the said previous year.</p> <p><b><u>Other provisions</u></b></p> <p>Such brought forward loss and unabsorbed depreciation shall be deemed as loss and unabsorbed depreciation brought forward as on the 1<sup>st</sup> 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>
<b>Period of profit and loss account and balance</b>	<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 31<sup>st</sup> March of the year immediately preceding the period beginning with</p>



<p>sheet in cases where accounting year of foreign company does not end on 31<sup>st</sup> March</p>	<p>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><b>Examples:</b></p> <p><b>Example 1:</b> 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 1<sup>st</sup> January, 2018 to 31<sup>st</sup> March, 2018. It is also required to prepare profit and loss account and balance sheet for the period 1<sup>st</sup> April, 2018 to 31<sup>st</sup> March, 2019.</p> <p>For the purpose of carry forward of loss and unabsorbed depreciation in this case, since the period 1<sup>st</sup> January, 2018 to 31<sup>st</sup> 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 31<sup>st</sup> March, 2018 is to be prepared.</p> <p><b>Example 2:</b> If the accounting year of the foreign company is from 1<sup>st</sup> July to 30<sup>th</sup> 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 1<sup>st</sup> July, 2017 to 31<sup>st</sup> March, 2018. It is also required to prepare profit and loss account and balance sheet for the period 1<sup>st</sup> April, 2018 to 31<sup>st</sup> March, 2019.</p> <p>For the purpose of carry forward of loss and unabsorbed depreciation in this case, since the period is more than 6 months, it is to be treated as a separate accounting year.</p> <p>The loss and unabsorbed depreciation as per tax record or books of account, as the case may be, of the foreign company shall, be allocated on proportionate basis.</p>
<p>Applicability of provisions of Chapter XVII-B (TDS provisions)</p>	<p>Where more than one provision of Chapter XVII-B of the Act applies to the foreign company as resident as well as foreign company, the provision applicable to the foreign company alone shall apply.</p> <p>Compliance to those provisions of Chapter XVII-B of the Act as are applicable to the foreign company prior to its becoming Indian resident shall be considered sufficient compliance to the provisions of said Chapter.</p> <p>The provisions of section 195(2) relating to application to Assessing Officer</p>

	to determine the appropriate proportion of sum chargeable to tax shall apply in such manner so as to include payment to the foreign company.
<b>Availability of deduction under section 90 or 91 (Foreign tax credit)</b>	The foreign company shall be entitled to relief or deduction of taxes paid in accordance with the provisions of section 90 or section 91 of the Act. Where income on which foreign tax has been paid or deducted, is offered to tax in more than one year, credit of foreign tax shall be allowed across those years in the same proportion in which the income is offered to tax or assessed to tax in India in respect of the income to which it relates and shall be in accordance with the provisions of rule 128 of the Income-tax Rules, 1962 [Given as Annexure 4 at the end of this material].
<b>Non applicability of the notification</b>	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.
<b>Applicability of the notification where foreign company becomes resident in the subsequent previous year also</b>	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.
<b>No effect on other transactions</b>	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.
<b>Applicability of other provisions relating to foreign company</b>	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.
<b>Applicability of tax rate on foreign company</b>	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.
<b>Applicability of notification</b>	This notification shall be deemed to have come into force from the 1st April, 2017.
<b>Meaning of foreign jurisdiction</b>	The place of incorporation of the foreign company.
<b>Applicability of rule 115 of the Income-tax Rules, 1962.</b>	The rate of exchange for conversion into rupees of value expressed in foreign currency, wherever applicable, shall be in accordance with provision of rule 115 of the Income-tax Rules, 1962. [Given as Annexure 2 at the end of this material]

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

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

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

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

### **SECTION – B: QUESTIONS AND ANSWERS**

#### **OBJECTIVE TYPE QUESTIONS**

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

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

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

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

- (d) It is upon the discretion of XYZ to either claim specific corpus donation for construction of building as exempt in the year of receipt or claim depreciation on building as application of income during various years.
- (iv) A is a resident individual aged 45 years. Find out his tax liability for A.Y. 2019-20 on the basis of the following particulars:
- |  |           |
|--|-----------|
| Business income  | 5,00,000  |
| Dividend from different domestic companies<br>(dividend distribution tax has been paid by these companies) |           |
| - G Ltd.   | 40,00,000 |
| - H Ltd.   | 10,000    |
| - I Ltd.   | 11,90,000 |
| Expenditure for earning dividend income  | 2,60,000  |
- (a) ₹ 4,49,800  
 (b) ₹ 6,09,180  
 (c) ₹ 4,22,760  
 (d) ₹ 13,000
- (v) The tax liability of Mr. Sunil for the financial year 2018-19 came to ₹ 1,54,000. He has paid advance tax of ₹ 1,38,000 and there was a TDS credit of ₹ 44,000 in his account. He filed his return of income on 30<sup>th</sup> July, 2019 claiming the refund due. His assessment was completed under section 143(1) and he was granted the refund on 15<sup>th</sup> February, 2020. Subsequently, his case was selected for scrutiny and his income was assessed under section 143(3). As per the assessment order dated 25<sup>th</sup> August, 2020, his income was recomputed after making certain additions and his revised tax liability was computed at ₹ 1,76,000. Whether he will be liable to pay any interest on the excess refund granted to him? If yes, then for what period?
- (a) Sunil will be liable to pay interest on the excess refund of ₹ 22,000 at the rate of ½ percent for a period of 7 months.  
 (b) Sunil will not be liable to pay any interest on the excess refund granted to him.  
 (c) Sunil will be liable to pay interest on the excess refund of ₹ 22,000 at the rate of 1 percent for a period of 6 months.  
 (d) Sunil will be liable to pay interest on the total refund of ₹ 28,000 at the rate of ½ percent for a period of 7 months.
- (vi) P Ltd. is a domestic company which filed its return of income for A.Y. 2019-20 declaring a total income of ₹ 1,15,00,000. The assessment in its case was opened by the Assessing Officer by issuing notice u/s 143(2). The Assessing Officer doubted the

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

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

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

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

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

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

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

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

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

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

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

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



4. Mega Tea Ltd. is a tea company engaged in cultivating and processing tea in its factory for marketing. The company distributed dividend of ₹ 25 lakhs to its shareholders. The Assessing Officer was of the view that the entire dividend is subject to dividend distribution tax. The company, however, contended that the tax on dividend declared by it in this case is nothing but a tax on agricultural income; and the legislative competence for taxing agricultural income lies with the State Government and not the Central Government. On appeal, the Appellate Authority held that since the company is carrying on cultivation of tea, which is an agricultural process as also the processing of tea in the factory, which is an industrial process, 40% of dividend distributed by the company is to be taxed under Section 115-O. Discuss the correctness or otherwise of the contention of the Appellate Authority.
5. Rhombus (P) Limited is engaged in manufacture and sale of ceramic tiles. The net profit of the company as per its profit and loss account for the year ended 31st March, 2019 is ₹ 210 lakh after debiting or crediting the following items:
- (i) One-time license fee of ₹ 32 lakh paid to ABC Ltd (an Indian company) for obtaining franchise on 1st June, 2018.
  - (ii) ₹ 32,000 paid to Beta & Co., a goods transport operator, in cash on 31st January, 2019 for carrying company's products to the warehouse.
  - (iii) Rent of ₹ 50,000 p.m. received from letting out a part of its office premises. Municipal tax in respect of the said part of the building is ₹ 8,000 remains unpaid due to court litigation.
  - (iv) ₹ 1 lakh, being contribution to a scientific research association approved and notified under section 35(1)(ii).
  - (v) ₹ 2 lakh, being loss due to destruction of a machinery caused by a fire due to short circuit. The Insurance Company did not admit the claim of the company.
  - (vi) ₹ 5 lakh paid to a contractor for repair work at the company's factory. No tax was deducted on such payment.
  - (vii) Dividend of ₹ 10,000 from Gama Limited on 1,000 equity shares of ₹ 10 each purchased at ₹ 100 per share on 10th October, 2018. The rate of dividend declared is 100%, the record date being 10th December, 2018. The shares were sold on 1st March, 2019 at ₹ 80 per share.
  - (viii) Depreciation on tangible fixed assets as per books of account ₹ 2.20 lakh.

**Additional Information:**

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

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

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

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

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

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

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

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

In this backdrop, answer the following:

- (i) Based on fresh information that there was escapement of income for the same assessment year, can the Assessing Officer initiate reassessment proceedings when the appeal is pending before Commissioner (Appeals)?

- (ii) Can the Assessing Officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?
- (iii) Can the assessee-company seek revision under section 264 in respect of matters other than those preferred in appeal?
- (iv) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?
9. Examine the correctness or otherwise of the following statements with reference to the provisions of the Income-tax Act, 1961:
- (i) The Commissioner (Appeals) cannot admit an appeal filed beyond 30 days from the date of receipt of order by an assessee.
- (ii) The Appellate Tribunal is empowered to grant indefinite stay for the demand disputed in appeals before it.
10. Mr. Vallish had approached the Settlement Commission for waiver of interest under sections 234A to 234C of the Income-tax Act, 1961. The Settlement Commission partially waived the interest but refused to grant interest on refund on the grounds that section 244A does not provide for payment of interest in such cases. Further, the Settlement Commission contended that its power to waive interest does not enable it to provide for payment of interest under section 244A. Discuss the correctness of the Settlement Commission's action in denying to grant interest on refund.
11. (i) Xylo Inc., a US company, received income by way of fees for technical services of ₹2 crore from Alpha Ltd., an Indian company, in pursuance of an agreement between Alpha Ltd. and Xylo Inc. entered into in the year 2012, which is approved by the Central Government. Expenses incurred for earning such income is ₹ 8 lakhs. Examine the taxability of the above sum in the hands of Xylo Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Xylo Inc does not have a permanent establishment in India
- (ii) If Xylo Inc. has a permanent establishment in India and the contract/agreement with Alpha Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided –

	Particulars	Amount
(1)	Fees for technical services received from Alpha Ltd.	₹ 2 crore
(2)	Expenses incurred for earning such income	₹ 8 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2005 to 2010	₹ 4 crore
(4)	Expenses incurred for earning such income	₹ 15 lakhs
(5)	Expenditure not wholly and exclusively incurred for the	₹ 6 lakhs

	business of such PE [not included in (2) & (4) above]	
(6)	Amounts paid by the PE to Head Office (not being in the nature of reimbursement of actual expenses)	₹ 12 lakhs

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

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

Particulars	₹
<b>Indian Income:</b>	
Income from business carried on in Calcutta	4,40,000
Interest on savings bank with HDFC Bank	42,000
<b>Income earned in Foreign Country "P" [Rate of tax – 16%]:</b>	
Agricultural income in Country "P"	94,000
Royalty income from a book on art from Country "P" (Gross)	7,80,000
Expenses incurred for earning royalty	50,000
<b>Income earned in Foreign Country "Q" [Rate of tax – 20%]:</b>	
Dividend received from a company incorporated in Country "Q"	2,65,000
Rent from a house situated in Country "Q" (gross)	3,30,000
Municipal tax paid in respect of the above house (not allowed as deduction in Country "Q")	10,000

13. (i) Research & Co. is engaged in providing scientific research services to several non-resident clients. Such services are also provided to B Inc., which guarantees 15% of the total loans of Research & Co. Examine whether transfer pricing provisions are attracted in respect of this transaction.
- (ii) Without prejudice to the answer to (i) above, assuming that transfer pricing provisions are attracted in this case and that the Assessing Officer had made a primary adjustment of ₹ 225 lakhs to transfer price in the P.Y.2016-17 vide order dated 1.4.2018 and the same was accepted by Research & Co., what are the consequent requirements as per the Income-tax Act, 1961 and the implications of non-compliance with the said requirements? Assume that the transaction is denominated in Indian Rupees and no amount has been repatriated upto 31.3.2019. The one year marginal cost of fund lending rate of State Bank of India as on 1.4.2018 is 8.15%.

14. Narmada Ltd., an Indian Company has borrowed ₹ 80 crores on 01-04-2018 from M/s. Thames Inc, a Company incorporated in London, at an interest rate of 10% p.a. The said loan is repayable over a period of 5 years. Further, loan is guaranteed by M/s Tyne Inc. incorporated in UK. M/s. Tweed Inc, a non-resident, holds shares carrying 40% of voting power both in M/s Narmada Ltd. and M/s Tyne Inc.
- Net profit of M/s. Narmada Ltd. for P.Y. 2018-19 was ₹ 7 crores after debiting the above interest, depreciation of ₹ 4 crores and income-tax of ₹ 3 crores. Calculate the amount of interest to be disallowed under the head “Profits and gains of business or profession” in the computation of M/s Narmada Ltd., giving appropriate reasons.
15. Explain the meaning of “significant economic presence”. Does “significant economic presence” constitute “business connection” for attracting deemed accrual provisions under section 9(1)? Examine, in line with which action plan of BEPS, has this provision been introduced in the Income-tax Act, 1961.
16. What is the difference between OECD Model Convention, 2017 and UN Model Convention, 2017 relating to right of Source State to tax business profits of an enterprise? Explain.

<b>MOST APPROPRIATE OPTION</b>
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- (i) (a)  
(ii) (c)  
(iii) (a)  
(iv) (a)  
(v) (a)  
(vi) (c)  
(vii) (a)  
(viii) (a)  
(ix) (d)  
(x) (c)

<b>SUGGESTED ANSWERS/HINTS</b>
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1. **Computation of total income of Mr. Prem for A.Y.2019-20**

Particulars	₹ (in lakhs)	
<b>Profits and gains of business or profession</b>		
Profits and gains from the specified business of setting up a warehousing facility for storage of food grains and sugar [See Working Note below]		60.00

Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	30.00	
Less: Depreciation under section 32 10% of ₹ 40 lakh, being (₹ 75 lakh – ₹ 45 lakh + ₹ 10 lakh)	<u>4.00</u>	<u>26.00</u>
<b>Total Income</b>		<b>86.00</b>

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

Particulars	₹ in lakhs	
Tax liability under the normal provisions of the Income-tax Act, 1961 [30% of ₹ 76 lakhs (₹ 86 lakhs – ₹ 10 lakhs) + ₹ 1,12,500]		23.93
Add: Surcharge @10% (Since total income > ₹ 50 lakhs but does not exceed ₹ 1 crore)		2.39
		26.32
Add: Health and education cess @4%		1.05
<b>Total tax liability</b>		<b>27.37</b>
Adjusted Total Income	₹ in lakhs	
Total Income		86.00
Add: Deduction under section 35AD [See Working Note below]	125.00	
Less: Depreciation under section 32 [10% of ₹ 125 lakh]	12.50	112.50
<b>Adjusted Total Income</b>		<b>198.50</b>
AMT @18.5%		36.72
Add: Surcharge @15% (Since adjusted total income > ₹ 1 crore)		5.51
		42.23
Add: Health and Education cess @4%		1.69
<b>Tax liability under section 115JC</b>		<b>43.92</b>
Since the regular income-tax payable is less than the AMT payable, the adjusted total income of ₹ 198.50 lakhs shall be deemed to be the total income of Mr. Prem and tax is payable @18.5% thereof plus surcharge @15% (since adjusted total income exceeds ₹ 1 crore) plus cess @4%. Therefore, the tax liability is ₹ 43.92 lakhs.		
<b>AMT Credit to be carried forward under section 115JD</b>		
Tax liability under section 115JC		43.92
Less: Tax liability under the regular provisions of the Income-tax Act, 1961		27.37
		<b>16.55</b>

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

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

**Notes:**

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2019-20 in respect of specified business of setting up and operating a warehousing facility for storage of food grains and sugar.
  - (ii) Since setting up and operating a warehousing facility for storage of edible oil is not a specified business, Mr. Prem is not eligible for deduction under section 35AD in respect of capital expenditure incurred for such business. Mr. Prem can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2018-19.
2. For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented mutual fund or a unit of a business trust acquired before 1<sup>st</sup> February, 2018 shall be the higher of

- (i) cost of acquisition of such asset; and
- (ii) lower of
  - (a) the fair market value of such asset; and
  - (b) the full value of consideration received or accruing as a result of the transfer of the capital asset.

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

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

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

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

Person	Particulars	LTCG/LTCL (in ₹)
Mr. Ganesh	In this case, the cost of acquisition of equity share of A Ltd. would be ₹ 2,000, being higher of actual cost i.e., ₹ 1,000 and ₹ 2,000 (being the lower of FMV of ₹ 2,000 as on 31.1.2018 and actual sale consideration of ₹ 2,500). Thus, the long-term capital gain would be (₹ 2,500 – ₹ 2,000) x 1,000 shares.	5,00,000
Mr. Rajesh	In this case, the cost of acquisition of equity shares of B Ltd. would be ₹ 5,000, being higher of actual cost i.e., ₹ 3,000 and ₹ 5,000 (being the lower of FMV of ₹ 6,500 as on 31.1.2018 and actual sale consideration of ₹ 5,000). In other words, actual cost of acquisition (i.e., ₹ 3,000) is less than the FMV of ₹ 6,500 as on 31.1.2018. However, the sale value of ₹ 5,000 is also less than the FMV of ₹ 6,500 as on 31.1.2018. Accordingly, the sale value of ₹ 5,000 will be taken as the cost of acquisition. The long-term capital gains would be Nil (₹ 5,000 – ₹ 5,000) x 2,000 shares.	Nil
Mr. Sridhar	In this case, the cost of acquisition of equity shares of C Ltd. would be ₹ 2,000, being higher of actual cost i.e., ₹ 2,000 and ₹ 1,500 (being the lower of FMV of ₹ 1,500 as	30,00,000



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

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

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

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

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

**Working Note:**

**Number of additional employees**

Particulars	No. of employees	
Total number of employees employed during the year		180
<b>Less:</b> Contractual employees employed on 1.8.2018,	48	

since they do not participate in recognized provident fund and their total monthly emoluments exceed ₹ 25,000		
Regular employees employed on 1.6.2018, since their total monthly emoluments exceed ₹ 25,000	46	
Regular employees employed on 1.10.2018 since they have been employed for less than 240 days in the P.Y.2018-19.	<u>35</u>	<u>129</u>
<b>Number of “additional employees”</b>		<b><u>51</u></b>

**Notes –**

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

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

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

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

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

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

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

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

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

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

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

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

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

Particulars	₹	₹
<b>Income from House Property (Note 1)</b>		
Gross Annual Value (GAV) (Rental income has been taken as GAV in the absence of other information) [₹ 50,000 x 12]	6,00,000	
Less: Municipal taxes (not deductible since it has not been paid)	Nil	
Net Annual Value (NAV)	6,00,000	

Less: Deduction under section 24 (30% of NAV)	1,80,000	4,20,000
<b>Profits and gains of business or profession</b>		
Net profit as per profit and loss account	2,10,00,000	
Add: Licence fee for obtaining franchise (Note 2)	32,00,000	
Municipal taxes in respect of let-out part of office premises (Note 1)	8,000	
Contribution to approved and notified scientific research association (treated separately) (Note 4)	1,00,000	
Loss due to destruction of machinery by fire (Note 5)	2,00,000	
Amount paid to contractor without deduction of tax at source [₹ 5 lakhs x 30%] (Note 6)	1,50,000	
Short-term capital loss on sale of shares of Gama Ltd. (Note 7)	20,000	
Depreciation on tangible fixed assets (Note 8)	2,20,000	
	<u>2,48,98,000</u>	
Less: Depreciation under section 32 (Note 8)		
Tangible fixed assets (Note 8)	2,60,000	
Intangible asset (Franchise)		
25% of ₹ 32,00,000 (Note 2)	8,00,000	10,60,000
Weighted deduction under section 35(1)(ii) (Note 4)		
₹ 1,00,000 x 150% (Contribution of scientific research association)	1,50,000	
Rental income to be taxed under "Income from house property" (Note 1)	6,00,000	
Dividend credited to profit and loss account to be excluded (Note 7)	10,000	
		<u>2,30,78,000</u>
<b>Capital Gains (Note 7)</b>		
Short-term capital loss (₹ 20 x 1000 shares)	20,000	
Less: Dividend exempt under section 10(34)	10,000	
Short-term capital loss to be carried forward to A.Y. 2020-21	10,000	
<b>Income from Other Sources (Note 9)</b>		
Deemed dividend under section 2(22)(e) subject to DDT in the hands of Theta (P) Ltd.		-
<b>Total Income</b>		<u><b>2,34,98,000</b></u>

**Notes:**

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

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

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

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

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

Particulars	₹	₹
Gross receipts from Hospital		2,00,00,000
Gross receipts from Medical College [exempt, since less than ₹1 crore]		-
		2,00,00,000
Add: Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [See Note 1 & 2]		3,00,000
		2,03,00,000
Less: 15% of income eligible for being set apart without any condition <sup>1</sup>		30,45,000
		1,72,55,000
Less: Amount applied for charitable purposes		
- <b>On revenue account</b> – Administrative expenses	75,00,000	
- <b>On capital account</b> – Land & Building [Section 56(2)(x) is not attracted in respect of value of property received by a trust or institution registered u/s 12AA]	80,00,000	

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

- Corpus donation to Help Aid Trust registered u/s 12AA – not allowable even if it is out of current year income of the trust	-	<u>1,55,00,000</u>
<b>Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]</b>		<b>17,55,000</b>
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i) [See Note 1]		<u>9,00,000</u>
<b>Total Income of the trust (including anonymous donation taxable@30%)</b>		<b><u>26,55,000</u></b>

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

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

**Notes:**

- |   |             |             |
|---|-------------|-------------|
| <b>(1)</b> Anonymous donations taxable @30%         | ₹           | ₹           |
| Anonymous Donations received (lakhs)                |             | 12.00       |
| 5% of total donations received, i.e. 5% of 60 lakhs | 3.00        |             |
| Monetary limit                                      | <u>1.00</u> |             |
| Higher of the above                                 |             | <u>3.00</u> |
| Anonymous donations taxable@30%                     |             | <u>9.00</u> |
- (2)** The provisions of section 13(7) have been interpreted in a manner that it excludes only anonymous donations subject to tax@30% under section 115BBC(1)(i). All taxable income of the trust [excluding anonymous donations taxable@30% u/s 115BBC(1)(i)] falls under section 115BBC(1)(ii), and are subject to tax at normal rates and eligible for benefit of unconditional accumulation u/s 11(1). Anonymous donation of ₹ 3,00,000 taxable at normal rates also falls under section 115BBC(1)(ii) and hence, like other taxable income of the trust falling within the

scope of this clause, the same would also be eligible for the benefit of unconditional accumulation under section 11(1). The above solution has been worked out on the basis of this interpretation of section 13(7). Accordingly, in the above solution, the benefit of unconditional accumulation upto 15% under section 11(1) has been given in respect of anonymous donation of ₹ 3,00,000 subject to tax at normal rates.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In this case, Xylo Inc. would be eligible for a concessional rate of tax@10% of ₹ 2 crore under section 115A on the fees for technical services received from Alpha Ltd., an Indian company, since the same is in pursuance of an agreement entered

into after 31.3.1976, which has been approved by the Central Government. No deduction, however, would be allowed in respect of expenditure of ₹ 8 lakhs incurred to earn such income. Also, Xylo Inc. has to file its return of income in India under section 139 and there is no exemption in this regard.

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

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

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

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

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

Particulars	₹	₹
<b>Income from House Property [House situated in Country Q]</b>		
Gross Annual Value <sup>2</sup>	3,30,000	
Less: Municipal taxes paid in Country Q	<u>10,000</u>	
Net Annual Value	3,20,000	
Less: Deduction under section 24 – 30% of NAV	<u>96,000</u>	
		2,24,000
<b>Profits and Gains of Business or Profession</b>		
Income from business carried on in India		4,40,000
<b>Income from Other Sources</b>		
Interest on savings bank with HDFC Bank	42,000	
Agricultural income in Country P [Not exempt]	94,000	

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

Dividend received from a company in Country Q	2,65,000	
Royalty income from a book of art in Country P (after deducting expenses of ₹ 50,000)	<u>7,30,000</u>	<u>11,31,000</u>
<b>Gross Total Income</b>		<b>17,95,000</b>
<b>Less: Deduction under Chapter VIA</b>		
<b>Under section 80QQB</b> – Royalty income of a resident from a work of art <sup>3</sup>		3,00,000
<b>Under section 80TTA</b> – Interest on savings bank account, subject to a maximum of ₹10,000.		<u>10,000</u>
<b>Total Income</b>		<b>14,85,000</b>

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

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

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

Calculation of Rebate under section 91:		₹
Average rate of tax in India [i.e., ₹ 2,68,320 / ₹ 14,85,000 x 100]	<b>18.069%</b>	
<b>Average rate of tax in country P</b>	<b>16%</b>	
<b>Doubly taxed income pertaining to country P<sup>4</sup></b>	<b>₹</b>	
Agricultural Income	94,000	
Royalty Income [₹ 7,80,000 – ₹ 50,000 (Expenses) – ₹ 3,00,000 (deduction under section 80QQB)]	4,30,000	
	<b>5,24,000</b>	

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

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

Rebate under section 91 on ₹ 5,24,000 @16% [being the lower of average Indian tax rate (18.069%) and foreign tax rate (16%)]		83,840
<b>Average rate of tax in country Q</b>	<b>20%</b>	
<b>Doubly taxed income pertaining to country Q</b>		
Income from house property	2,24,000	
Dividend	<u>2,65,000</u>	
	<b><u>4,89,000</u></b>	
Rebate under section 91 on ₹ 4,89,000 @18.069% (being the lower of average Indian tax rate (18.069%) and foreign tax rate (20%)]		<u>88,357</u>
<b>Total rebate under section 91 (Country A + Country B)</b>		<b><u>1,72,197</u></b>

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

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

repatriated within 90 days, the same would be deemed to be an advance made by Research & Co. to B Inc. and interest would be attracted @ 11.40% (8.15% + 3.25%).

14. If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise (AE) and such interest exceeds ₹ 1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

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

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

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

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

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

15. As per *Explanation 2A* to section 9(1)(i), "significant economic presence" of a non-resident in India shall constitute "business connection" for attracting deemed accrual provisions in India.

“Significant Economic Presence” means-

- (a) transaction in respect of any goods, services or property carried out by a non-resident in India including provision of download of data or software in India, if the aggregate of payments arising from such transaction or transactions during the previous year exceeds the prescribed amount; or
- (b) systematic and continuous soliciting of business activities or engaging in interaction with such prescribed number of users in India through digital means.

Further, the above transactions or activities shall constitute significant economic presence in India, whether or not,—

- (i) the agreement for such transactions or activities is entered in India;
- (ii) the non-resident has a residence or place of business in India; or
- (iii) the non-resident renders services in India:

However, where a business connection is established by reason of significant economic presence in India, only so much of income as is attributable to the transactions or activities referred to in (a) or (b) above shall be deemed to accrue or arise in India.

This provision has been inserted in the Income-tax Act, 1961 in line with “BEPS Action Plan 1 Addressing the challenges of the digital economy” to take care of new business models such as digitized businesses, which do not require physical presence of itself or any agent in India. Such businesses can now be covered within the scope of section 9(1)(i).

16. Business profits of an enterprise can only be taxed by the Residence State. Right of Source State to tax business profits of an enterprise only arises if it carries on business through a Permanent Establishment (PE) situated in that State.

As per the approach under the OECD Model Convention, once a PE is proven, the Source State can tax only such profits as are attributable to the PE. The UN Model Convention amplifies this attribution principle by a **limited** Force of Attraction rule (FOA).

The FOA rule implies that when a foreign enterprise sets up a PE in State of Source, it brings itself within the fiscal jurisdiction of that State (State of Source) to such a degree that profits that the enterprise derives from Source State of Source, whether through the PE or not, can be taxed by it (State of Source State).

As per Article 7 of the UN Model Convention, if the enterprise carries on business in the other Contracting State through a PE, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to:

- (a) that PE;
- (b) sales in that other State of goods or merchandise of the same or similar kind as those sold through that PE; or
- (c) other business activities carried on in that other State of the same or similar kind as those effected through that PE.

## PAPER – 8 : INDIRECT TAX LAWS

### QUESTIONS

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

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



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

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

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

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

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

XYZ Pvt. Ltd. has furnished the following details:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Following additional information is also available:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### SUGGESTED ANSWERS

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

11.

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

(c)	<b>Common credit attributable to exempt supplies, for the month of October 20XX – T<sub>e</sub></b> $= T_r \times \frac{\text{Turnover of exempt supplies during October 20XX}}{\text{Total turnover of XYZ Pvt. Ltd. during October 20XX}}$ $= 2,340 \times \frac{10,00,000}{25,00,000}$	<b>936</b>
(iv)	<b>Computation of GST liability of the company for October 20XX payable through Electronic Cash Ledger</b>	
	IGST payable on 'Alpha' [₹ 9,00,000 x 18%]	1,62,000
	IGST payable on 'Beta' [Exempt]	Nil
	IGST payable on 'Gama' [₹ 6,00,000 x 18%]	<u>1,08,000</u>
	Total IGST payable on outward supply	2,70,000
	Common credit attributable to exempt supplies for the month of October, 20XX [Note 12]	<u>936</u>
	Total output tax liability of October, 20XX	2,70,936
	Less: ITC available in the Electronic Credit Ledger	<u>1,35,000</u>
	<b>IGST payable from Electronic Cash Ledger</b>	<b>1,35,936</b>

**Notes:**

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

Thus, 'A' shall be computed as under-

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

$$= ₹ 36,000$$

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

Thus, 'A' shall be computed as under-

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

$$= ₹ 14,400$$

- (9) The aggregate of the amounts of 'A' credited to the electronic credit ledger, to be denoted as 'T<sub>c</sub>', shall be the common credit in respect of capital goods for a tax period [Rule 43(1)(d) of the CGST Rules, 2017].

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

$$= T_c \div 60$$

$$= ₹ 86,400 \div 60$$

$$= ₹ 1,440$$

- (11) Useful life of capital goods used commonly for effecting taxable supplies and exempt supplies shall be taken as five years from the date of the invoice for such goods [Rule 43(1)(c) of the CGST Rules, 2017]. Machinery 'Z' is used commonly for effecting taxable and exempt supplies from October 1, two years before 01.10.20XX. Hence, its useful life remains in the month of October 20XX and therefore, T<sub>r</sub> will be aggregate of T<sub>m</sub> (ITC pertaining to a month) for Machinery 'Z' and T<sub>m</sub> for other machineries computed under point 3.(a).

T<sub>m</sub> for machinery 'Z' will be computed as under:

$$₹ 54,000 \div 60 = ₹ 900$$

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

$$T_r = ₹ 900 + ₹ 1,440 = ₹ 2,340$$

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

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

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

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

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

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

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

**Output tax liability of B & D Company under composition scheme**

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

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

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

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



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

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

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

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

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

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

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

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

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

**Working Note 1**

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

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

**Working Note 2**

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

**Working Note 3**

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

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

**Working Note 4**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Consideration for supply = ₹ 10,00,000

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

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

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

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

Consideration for supply = ₹ 4,00,000

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

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

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

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

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

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

$$= ₹ 48,000 \times 118\%$$

$$= ₹ 56,640.$$

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

**Notes:**

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

$$= ₹ 2,60,000 \times 100 / 118$$

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

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

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

$$= ₹ 2,95,000 \times 100 / 118$$

$$= ₹ 2,50,000$$

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

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

$$= ₹ 5,90,000 \times 100 / 118$$

$$= ₹ 5,00,000$$

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

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

$$= ₹ 6,49,000 \times 100 / 118$$

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

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

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

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

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

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

$$= ₹ 2,72,000 \times 100 / 118$$

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

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

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

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

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

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

**Notes:**

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

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

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

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

where-

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

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

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

excluding:

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

during the relevant period.

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

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

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

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

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

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

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

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

where-

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

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

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

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

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

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

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

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

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

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

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

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

22. **Computation of export duty**

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

**Notes:-**

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



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

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

## Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2019 Examination

### Elective Papers

#### Paper 6A: Risk Management

The pattern of examination for this paper is open-book and case study based. The entire content included in the November 2017 edition of the Study Material shall be relevant for the May 2019 examination.

#### Paper 6B: Financial Services and Capital Markets

The pattern of examination for this paper is open-book and case study based. The entire content included in the August 2017 edition of the Study Material shall be relevant for May 2019 examination.

In addition to above following five SEBI Regulations **excluding the Schedules** related thereto shall also be relevant for May 2019 examination.

- (i) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [Last amended upto June 30, 2018]
- (ii) SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 [Last amended upto June 30, 2018]
- (iii) SEBI (Prohibition of Insider Trading) Regulations, 2015 [Last amended upto June 30, 2018]
- (iv) SEBI (Buy Back of Securities) Regulations, 2015 [Last amended upto June 30, 2018]
- (v) SEBI (Mutual Funds) Regulations, 1996 [Last amended upto June 30, 2018]

Accordingly, the list of SEBI Regulation and Guidelines as provided in the Chapter 16 of the Study Material need to be ignored.

Compilation of above-mentioned Regulations is available at following link:

<https://resource.cdn.icai.org/48430bos32482.pdf>

#### Paper – 6C : International Taxation

##### 1. Applicability of amendments made by Finance Act

As far as the applicability of Finance Act is concerned, the amendments made by the Finance Act of a particular year would be applicable for the May and November examinations of the next year. **For instance, the direct tax laws, as amended by the Finance Act, 2018, would be applicable for May, 2019 and November 2019 examinations. The relevant assessment year for May, 2019 and November, 2019 examinations is A.Y.2019-20.** This would be relevant as far as the topics on International Taxation pertain to the Income-tax Act, 1961, equalization levy and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

However, in case the case study based question requires computation/determination relating to any earlier assessment year also, then, the relevant provisions pertaining to that year would be given in the question itself. In the alternative, the question may mention that the relevant provisions in the earlier year were the same as they are for A.Y.2019-20.

**2. Applicability of amendments made by circulars, notifications and other legislations**

Students are expected to be updated with the notifications, circulars in direct tax laws issued upto 6 months prior to the examination. For instance, for May, 2019 examination, significant notifications and circulars issued by the CBDT/Central Government upto 31<sup>st</sup> October, 2018 would be relevant.

**3. Applicability of provisions of income-tax law dealt with in Final (New) Paper 7 while addressing issues and making computation in case study based questions in Final (New) Paper 6C**

The questions based on case study in the Elective Paper 6C: International Taxation may involve application of other provisions of income-tax law dealt with in detail in Paper 7: Direct Tax Laws and International Taxation, which the students are expected to be aware of. Students may note that they are expected to integrate and apply the provisions of income-tax law (dealt with in Final Paper 7: Direct Tax Laws and International Taxation and in the Elective Paper 6C: International Taxation) in making computations and addressing relevant issues in questions raised in the Elective Paper 6C on International Taxation.

**4. Scope of coverage of certain topics**

As regards certain topics on International Taxation, namely, Tax Treaties: Overview, Features, Application & Interpretation and Anti-Avoidance Measures, only the content as covered in the **November, 2018 edition** of the Study Material would be relevant for May, 2019 Examination. The Chapter "Overview of Model Tax Conventions" has been webhosted at the BOS Knowledge Portal at <https://resource.cdn.icai.org/52647bosfinal-p6c-maynov19-cp9.pdf> and the content as included therein is relevant for May, 2019 Examination. US Model Convention is **excluded** from the scope of the topic "Overview of Model Tax Conventions" from May, 2019 Examination.

The **January 2019 edition** of the Study Material includes the chapter "Overview of Model Tax Conventions". **For May, 2019 and November, 2019 examinations, the students may, therefore, follow either the November 2018 edition read along with the webhosted chapter "Overview of Model Tax Conventions" or the January 2019 edition, which includes the chapter "Overview of Model Tax Conventions".**

It may be noted that if a case study based question involves application of a double taxation avoidance agreement (DTAA), the extract of the relevant article(s) of the DTAA would be given in the question paper. Alternatively, the question may mention that the DTAA is in line with the OECD/UN Model Tax Convention, in which case the students have to refer to the relevant article(s) of the Model Tax Convention. Students are expected to have the ability to interpret the article(s) of the DTAA in answering case study based questions.

**Paper 6D: Economic Laws**

All the significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued in the specified Acts covered under the Economic Laws, up to 31<sup>st</sup> October 2018, are applicable for May 2019 examination.

<b>Inclusions / Exclusions from the syllabus</b>			
(1)	(2)	(3)	(4)
S. No. in the syllabus	Chapters/ Topics of the syllabus	Inclusions (Provisions which are included from the corresponding chapter of the syllabus)	Exclusions (Provisions which are excluded from the corresponding chapter of the syllabus)
Chapter 1	World Trade Organization	The entire content included in the November 2017 edition of the Study Material and the Legislative amendments hosted on the website for May 2019 examinations, shall only be relevant for the said examinations.  The Legislative amendments have been webhosted on the BoS Knowledge Portal.	-
Chapter 2	The Competition Act, 2002 and Rules/Regulations	The entire content included in the November 2017 edition of the Study Material and the Legislative amendments hosted on the website for May 2019 examinations, shall only be relevant for the said examinations.  <b>Significant Rules/ Regulations</b> related to the Competition Act are covered in the study material in the Broad manner. These are relevant for May 2019 examination	Following Sections of the Competition Act, 2002 are excluded for the examination: 23, 24, 25, 34, 37, 40 are excluded.  Coverage of the Rules or regulations to the Competition Act are restricted to the extent covered in the study material.

		<p>to the extent covered in the study material.</p> <p>The Legislative amendments have been webhosted at the BoS Knowledge Portal.</p>	
Chapter 3	Real Estate (Regulation and Development) Act, 2016 and Rules/Regulations	<p>The entire content included in the November 2017 edition of the Study Material and the Legislative amendments hosted on the website for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted on the BoS Knowledge Portal.</p>	Regulations pertaining to RERA is excluded.
Chapter 4	The Insolvency and Bankruptcy Code, 2016 and Rules/Regulations	<p>The entire content included in the November 2017 edition of the Study Material and the Legislative amendments hosted on the website for May 2019 examinations, shall only be relevant for the said examinations.</p> <p><b>In specific, Regulations/ Rules</b> related to Insolvency and Bankruptcy, it is covered in a broad manner and not in entirety.</p> <p><b>These</b> shall only be applicable to the extent covered in the study material.</p> <p>The Legislative amendments have been</p>	<p>Following sections are excluded of the Notified chapters of the Code.:</p> <p>3(2), 3(3), 3(5), 3(9), 3(14), 3(22), 3(24), 3(25), 3(26), 3(28), 3(29), 3(32), 3(36), 3(37), 5(2) to 5(4), 5(10), 5(13), 5(15) to 5(16), 5(19), 5(21) to 5(23), 19, 20, 26, 48, , 191, 195, 198, 200, 205, 224,227-229, 241-255.</p> <p>In specific, chapter related to Insolvency resolution and bankruptcy for individuals and partnership firms of the Code (from section 78 to 187) is excluded. (Being un-notified as on 31<sup>st</sup> October, 2018)</p> <p>Coverage of the Rules or regulations to the IBC are</p>

		webhosted on the BoS Knowledge Portal.	restricted to the extent covered in the study material.
Chapter 5	The Prevention of Money Laundering Act, 2002 and Rules/Regulations	<p>The entire content included in the November 2017 edition of the Study Material and the Legislative amendments hosted on the website for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted on the BoS Knowledge Portal.</p>	<p>Following provisions are excluded for the examination:</p> <p>Sections 2(1)(a), (c), (d),(g), (ga), (h), (m), (ma), (r), , (t), (v), , (x), (za), (zc), (ze), (zg)- (zj), &amp; 2(2)- Definitions, 27, 28, 29, 30, 31, 32, 33, 34, 48, 49, 50, 51, 52, 53, &amp; 54.</p> <p>Rules related to PMLA are excluded.</p>
Chapter 6	The Foreign Exchange Management Act, 1999 and Rules /Regulations	<p>The entire content included in the November 2017 edition of the Study Material and the Legislative amendments hosted on the website for May 2019 examinations, shall only be relevant for the said examinations.</p> <p><b>In specific following FEM(Regulations)/ Rules</b> shall only be applicable to the extent covered in the study material-</p> <ul style="list-style-type: none"> <li>• Foreign Exchange Management (Current Account Transactions) Rules, 2000</li> <li>• Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000</li> </ul>	<p>Following provisions of the FEMA, 1999 is excluded for the examination-</p> <p>Sections 16(2), 16(4) to 16(6) ,17(3) 17(6), 20 to 31, 33, 45, 46, 47 &amp; 48.</p> <p>Following FEM(Regulations)/ Rules are entirely excluded:</p> <ul style="list-style-type: none"> <li>• Foreign Exchange (Authentication of Documents) Rules, 2000</li> <li>• Foreign Exchange(Compounding Proceedings) Rules, 2000</li> <li>• Foreign Exchange Management (Adjudication Proceedings and Appeal) Rules, 2000</li> </ul>

		<ul style="list-style-type: none"> <li>• Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2000</li> <li>• Foreign Exchange Management (Acquisition and Transfer of Immovable Property outside India) Regulations, 2015</li> <li>• Foreign Exchange Management (Export of Goods and Services) Regulations, 2015</li> <li>• Foreign Exchange Management (Realisation, repatriation and surrender of foreign exchange) Regulations, 2015</li> <li>• Foreign Exchange Management (Possession and retention of foreign currency) Regulations, 2015</li> <li>• Liberalized Remittance Scheme.</li> </ul> <p>The Legislative amendments have been webhosted on the BoS Knowledge Portal.</p>	<ul style="list-style-type: none"> <li>• Foreign Exchange Management (Encashment of Draft, Cheque, Instrument and Payment of Interest) Rules, 2000</li> <li>• Foreign Exchange Management (Borrowing and lending in Rupees) Regulations, 2000</li> <li>• Foreign Exchange Management (Deposit) Regulations, 2016</li> <li>• Foreign Exchange Management (Establishment in India of a Branch Office or a Liaison Office or a Project Office or any other place of business) Regulations, 2016</li> <li>• Foreign Exchange Management (Export and Import of Currency) Regulations, 2015</li> <li>• Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015</li> <li>• Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000</li> <li>• Foreign Exchange Management (Guarantees) Regulations, 2000</li> </ul>
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			<ul style="list-style-type: none"> <li>• Foreign Exchange Management (Insurance) Regulations, 2015</li> <li>• Foreign Exchange Management (Investment in firm or proprietary Concern in India) Regulations, 2000</li> <li>• Foreign Exchange Management (Issue of security in India by a Branch Office or Agency of a person Resident in outside India) Regulations, 2000</li> <li>• Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2016</li> <li>• Foreign Exchange Management (Remittance of Assets) Regulations, 2016</li> <li>• Foreign Exchange Management (Transfer or issue of any Foreign security) Regulations, 2004</li> <li>• Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000</li> <li>• Foreign Exchange Management (Withdrawal of General permission to Overseas Corporate Bodies) Regulations, 2003</li> <li>• Foreign Exchange Management (Removal of Difficulties) Order, 2000</li> </ul>
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			<ul style="list-style-type: none"> <li>• Foreign Exchange Management (Crystallization of Inoperative Foreign Currency Deposits) Regulations, 2014</li> <li>• Foreign Exchange Management (Offshore Banking Unit) Regulations, 2002</li> <li>• Foreign Exchange Management (International financial Services Centre) Regulations, 2015</li> <li>• Foreign Exchange Management (Regularization of assets held abroad by a person Resident in India) Regulations, 2015</li> </ul>
Chapter 7	Prohibition of Benami Property Transactions Act, 1988 and Rules/Regulations	<p>The entire content included in the November 2017 edition of the Study Material and the Legislative amendments hosted on the website for May 2019 examinations, shall only be relevant for the said examinations.</p> <p>The Legislative amendments have been webhosted on the BoS Knowledge Portal.</p>	Rules related to Prohibition of Benami Property Transactions Act are excluded.

**Notes:**

- (1) In the above table of exclusion, in respect of the Chapters of the syllabus specified in column (2) the related exclusion is given in column (4). 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.
- (2) November 2017 edition of the Study Material is relevant for May 2019 examinations. The amendments - made after the issuance of this Study Material – i.e. amendments webhosted

for May 2019 examinations also shall be relevant for the said examinations. The Legislative amendments are available on the BoS Knowledge Portal.

- (3) Except the exclusions mentioned in the column (4) of the table, the entire content of the syllabus included in the November 2017 edition of the Study Material and the Legislative amendments for May 2019 examinations shall be relevant for the said examinations.

### **Paper 6E: Global Financial Reporting Standards**

- 1. Study Material to be referred:** In respect of Final Elective Paper 6E : Global Financial Reporting Standards (GFRS), students are advised to read Module 2 (except headings 1.1 to 1.7 of Chapter 4 Unit 1) to Module 5 of Final Paper 1 : Financial Reporting (Revised Nov. 2018 edition) alongwith the 'Major Differences between Ind AS and IFRS and Reason therefor' hosted at the BOS Knowledge Portal at [https://www.icai.org/post.html?post\\_id=14444](https://www.icai.org/post.html?post_id=14444). Reference of Ind AS material has been given because Ind AS alongwith the differences in Ind AS vis-à-vis IFRS is equivalent to IFRS.

The objective of this elective paper is to develop an understanding of the key concepts and principles of International Financial Reporting Standards and to acquire the ability to apply such knowledge to address issues and make computations in practical case scenarios. Accordingly, the students are expected to keep this objective in mind and read the content based on Ind AS discussed in Modules 2 to 5 of the core Paper 1 on Financial Reporting along with the above referred differences; and apply the same to address issues and make computations on the basis of IFRS.

In addition, the students are also required to develop an understanding of the significant differences between IFRS and US GAAP. The same has also been webhosted at the above link along with the differences between IFRS and Ind-AS.

Students may note that at the end of certain Ind AS, appendix corresponding to relevant IFRIC /SIC has been appended. Since IFRICs/ SICs are part of IFRS, they also form part of the syllabus. Hence, 'List of IFRICs /SICs included in the corresponding Appendices to Ind AS' has also been uploaded on the website alongwith the 'List of IFRS corresponding to Ind AS' at the above link.

- 2. Non-applicability of certain International Financial Reporting Standards (IFRS) and IFRS Interpretations (IFRICs):** Since the Core paper on Financial Reporting does not cover Ind AS equivalent to IAS26, IAS 29, IFRS 4, IFRS 6, IFRS 14, IFRS 16 and IFRS 17, the same IFRS shall also not form part of the GFRS Paper. Similarly, in applicable Ind AS there is no corresponding to Appendix on IFRIC 2, IFRIC 23 and SIC 7, so they have not been discussed in the Core paper on Financial Reporting. Hence the same shall also not form part of the GFRS Paper.
- 3. Applicability of amendments made by circulars, notifications and other legislations:** Students are expected to be updated with the notifications, circulars and other legislative amendments in Ind AS corresponding to IFRS, made upto 1 year prior to the examination. For instance, for May, 2019 examination, significant notifications

and circulars issued by the MCA / Central Government upto 30<sup>th</sup> April, 2018 with respect to Ind AS would be relevant to GFRS paper.

4. **Scope of coverage of certain topics:** As regards to the topic on 'Significant differences between IFRS and US GAAPs', the content as covered in the file uploaded on the website at the link <https://resource.cdn.icai.org/48696bos32691a.PDF> would be relevant for May, 2019 Examination.

#### Paper 6F: Multidisciplinary Case Study

The Multi-disciplinary case study would involve application of two or more of the seven core subjects at the Final level. List of seven core subject at final level is given as under:

Final Paper
Paper 1: Financial Reporting
Paper 3: Advanced Auditing and Professional Ethics
Paper 2: Strategic Financial Management
Paper 4: Corporate and Economic Laws
Paper 5: Strategic Cost Management and Performance Evaluation
Paper 7: Direct Tax Laws & International Taxation
Paper 8: Indirect Tax Laws

**Note: The applicability/non-applicability of Standards/Guidance Notes/Legislative Amendments etc. for this paper for May, 2019 Examination would be the same as applicable for each of the above individual papers.**

#### Paper 7 : Direct Tax Laws and International Taxation

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

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

**Note -** The September 2018 edition of the Study Material is relevant for May, 2019 examination. The RTP for May, 2019 Examination contains the Statutory Update (Notifications and Circulars). The Judicial Update (Significant Select Case Laws) has been webhosted at the BoS Knowledge Portal at <https://resource.cdn.icai.org/53979bosjudicial-070219.pdf>

##### Scope of coverage of certain topics in Part II: International Taxation

As regards certain topics on International Taxation, namely, Overview of Model Tax Conventions, Application & Interpretation of Tax Treaties and Fundamentals of Base Erosion and Profit Shifting, the content as covered in the September, 2018 edition of the Study Material would be relevant for May, 2019 Examination.

<b>Paper 8: Indirect Tax Laws</b>
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**Applicability of provisions of indirect tax laws for May, 2019 Examination**

The following are applicable for May, 2019 examination:

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

<b>List of topic-wise exclusions from the syllabus</b>
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(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions (Provisions which are excluded from the corresponding topic of the syllabus)
1(ii)	Levy and collection of CGST and IGST – Application of CGST/IGST law; Concept of supply including composite and mixed supplies, inter-State supply, intra-State supply, supplies in territorial waters; Charge of tax; Exemption from tax; Composition levy	<b>CGST Act, 2017 &amp; IGST Act, 2017</b> (i) Rate of tax prescribed for supply of <b>goods*</b> (ii) Rate of tax prescribed for supply of <b>services*</b> (ii) Exemptions for supply of goods
1(v)	Input tax credit	Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
1(vii)	Procedures under GST – All procedures including registration, tax invoice, credit and debit notes, electronic way bill, accounts and records, returns, payment of tax including reverse charge, refund, job work	<b>CGST Act, 2017 and CGST Rules, 2017</b> (i) Furnishing of GSTR-2, GSTR-1A, GSTR-3, GSTR-7, GSTR-8 (ii) Claim of input tax credit and provisional acceptance thereof (iii) Matching, reversal & reclaim of input tax credit (iv) Matching, reversal & reclaim of reduction in output tax liability (v) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3) <b>IGST Act, 2017</b>

		Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3)
1(xvi)	Other Provisions	Transitional Provisions

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

Notes:

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

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

Section 28 of the CGST Amendment Act, 2018 which has amended section 140 of the CGST Act, 2017, though effective from 1st July, 2017, is not applicable for May, 2019 examination as section 140 covered under "Chapter XX – Transitional Provisions" has been excluded from the syllabus by way of Study Guidelines as mentioned above. It may be noted that all the remaining provisions of the CGST Amendment Act, 2018 have not been made effective till 31.10.2018 and hence, are not applicable for May, 2019 examination.

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