

PAPER – 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

*** CASE SCENARIO***

Gain Sharing Arrangements

Healthcare Industry



1. **Raya Health Care** Limited is a leading healthcare service provider in Mumbai, it has approximately 450 potential beds, it provides diagnostic and day care speciality facilities also. In diagnostic centres they are using traditional devices for CT Scan and MRI which are not enough as per demand. Patients waited more than weeks for CT and MRI scans, this problem can cause delay in diagnosing illness; waste of time and other resources; not just in radiology but throughout the healthcare system.

Raya has planned to outsource CT scan and MRI services to Livlife, which has world-class international chain of diagnostic centre. Livlife promise to provide radiologist report within 24 hours. However, finance manager of Raya doubt that it will not be a profitable arrangement. For the satisfaction of Raya, Livlife has entered an agreement to provide its services to Raya with no guarantee of receiving payment. Raya agrees to the following conditions:

- Cost savings generated in first year, the same will be retained by Livlife.
- Cost savings generated in second and third year will be shared between Raya and Livlife at a ratio of 30%:70%.
- Cost savings generated in the fourth year will be passed to Raya.
- Any cost savings generated by an idea proposed exclusively by Raya that does not require capital investment by Livlife will be immediately passed along to Raya.

Required

DISCUSS the agreement between Raya and Livlife.

Cost Management in Specific Sector

Supermarket



2. **Fresh Bazar** was founded in 2014 as a Fresh Bazar Mart. It provides amazing place for fresh organic fruits and vegetables, after launching its operations in November 2014, it grew to about 150 stores within three years majorly in metro cities, but soon it found that it did not have the systems and infrastructure to support that expansion.

Fruits and Vegetables as a category of competitive market types, which offers these products, very low margins, “while the rental cost and other overheads are very high”. Also, staff attrition, poor locations, supply-chain issues, and infrastructure problems prompted it to shut nearly 45 stores within two years of the launch. Since then, the company has standardized its operations and increased centralization of its supply chain.

Though they provide all types of fresh organic fruits and vegetables under one roof, instead in local mandis people have to go from one place to another to buy different fruits and vegetables, still they are unable to compete with local vendors.

It also faces huge opposition from politically powerful small vendors, farmers, and middlemen. Fresh bazar had major hurdles in 2016, when it chased out state Uttar Pradesh, Jharkhand, India’s most populous region, after protest by small vendors, farmers, and intermediaries.

Mr. Kailash, manager of Fresh Bazar, purchases fruits and vegetables from wholesale mandis. Price of Fruits and Vegetables fluctuates in wholesale mandis daily basis which is directly depends on the supply of fruits and vegetables by farmers. In addition, supply also depends on transport facilities, rain, political factors etc.

Fresh Bazar sells these fruits and vegetables at the almost same price as of local vendors in local mandis. Though the quality of local vendors is not as good as Fresh Bazar but local public prefer to buy fruits and vegetables from local vendors on road sides.

Their business still requires a lot of investments, and there is no synergy to the activity of the company. Due to all these reasons, Fresh Bazar is incurring continuous losses.

Fresh Bazar wants to expand its business and wants to make money in every store that they set up, and that would be the way in which they scale up their business.

Required

ADVISE is there any scope to reduce losses and increase profitability.

***CASE STUDY ***

5S



3. **Gold-Star** Limited deals in manufacturing of traditional cycles. Recently apart from manufacturing old style cycles, GSL starts assembly of electronic cycles.

Since GSL didn't expand the factory area, post starting assembly of electronic cycles; hence production floor largely remains over-occupied with all sort of material, jigs, and tools; some of them are frequently useful, some are often and other are less often; even some are quite rare.

Workers usually complaint that all categories of jigs and tools are not available, tools which are available also of those belongs to those product design which are outdated (majority of such product are not further manufactured by GSL) accessible. Although floor manager is of opinion instead saying tools are not available, it can be said they are not accessible; because workers pick the tool from tool kit or tool board; but not place it back after use; hence it become difficult to locate such tool later or identify worker; with whom these may available.

On name of maintenance department, there are only two staff members, who are responsible for ensuring that every machine or equipment must be in running order and effective. Due to shortage of staff in maintenance department, requests for repairs of plant or machines are not handled within reasonable time frame and same will result in sharp deterioration of utility/ effectiveness of such plant or machine. Even in some of circumstances, replacements become/ remain only alternative.

GSL has reasonable standardise operating procedure for manufacturing of cycles business, but scenario is worse in case of assembly of electronic cycles. Since GSL is recently entered into assembly of electronic cycles, hence KPIs are not established for all factors which are part of assembly process including critical success factors.

At GSL, the attrition rate at senior management positions is quite high and no formal hierarchy tree is established, which result in drastic shifts in workplace culture (due to frequently changing role & responsibility).

Regarding safety of man and material, GSL is on front foot, taking all reasonable care; which is essential for purpose of eliminating any possibility of workplace accident. But assembly line of electronic cycles witness an incident recently, where one of model "x-2" during assembly caught fire because wires set of "x-2" come into exposure of sparking from the light point near to such assembly line. Such fire causes burn of some of other material too, which are lying near to such assembly line.

Post such incident, CEO call for meeting with all the top tier executives, majorly including production and operation manager, safety staff, maintenance staff and store manager apart from management accountant. During the meeting while production and operation manager highlights some of problem areas, management accountant quoted 5S as solutions to problems faced by GSL.

CEO asked Management Accountant to be ready with report and presentation on 5S, which can highlight the operational aspect of 5S.

Required

You are deputy to management accountant and asked by him to prepare a case, in form of report; in favour of implementing/ APPLYING 5S at GSL and EXPLAINING the expected benefit from implementation of 5S.

QUESTIONS

Performance Measurement

Eyewear Industry



4. History

In 2009, Luxo had monopoly in the eyewear market of America, but the problem with the company was that it was selling variety of eyewear, by putting a big price on it. At present, there is almost nothing that you can't buy online, but at that time there were limited things that you could order online. In 2009, **Arby Signer** Inc. launched a website to sell eyeglasses online. Selling eyewear online and competing with Luxo was a challenge for Arby. Within just 4 years Arby break the monopoly of Luxo and capture

the major market of America. People find it really convenient to buy sunglasses and glasses online and get delivery at doorstep. Following the footsteps of Luxo, Arby eliminated the middleman from the manufacturing process, launched its own optical lab to have its own manufacturing process. The range of products/services offered by Arby which make different from Luxo include easy buying process, delivery at door step, stylish glasses, customize eyewear glasses, products were sold on the site at very affordable, with a starting range of just \$95 etc.

Mission, Vision & Objectives

Mission	<i>“Improving people’s lives with our health care products in a socially cognizant way”</i>
Vision	<i>“To be a trusted health care partner”</i>
Objective	<i>“To offer people designer eyewear at a revolutionary price”</i>

As a mission-based brand, Arby needed a way to instill their team of employees with a passion for the mission. Arby let their employees know ‘what they value’ and ‘what the employee should value’ in ‘who they are’. This is important to setting up ‘what they do’ and ‘why they do it’ as a core foundation of their brand story. Arby also contributes in the *philanthropic work*, it inspires the people with its mission. For every pair of glasses customer pay, Arby donates a pair of glasses to a needy person. In December 2019, Arby reported the donation of 9,60,000 pairs of eyeglasses. The company also claims to be 90% carbon neutral.

Extracts from the Balanced Scorecard

Performance Measure	2019 Actual	2019 Target
Financial perspective		
Return on capital employed (ROCE)	13%	14%
Net income	\$95 Millions	\$89 Millions
Customer perspective		
Number of first-time buyers	1,20,000	1,00,000
Customer retention ratio	78%	75%
Number of complaints (per 1,000 customers)	1.5	2
Number of glasses donated to needy people	9,60,000	9,00,000
Internal processes		
Number of business processes re-engineered	110	100
Number of new services made available through online application	2	4
Incidences of fraud on customers’ accounts (per 1,000 customers)	3	10

Total CO ₂ emissions (tons)	850	1,100
Learning and growth		
Number of employees trained to instruct retailers	1,000	1,050
Number of hours (paid for) used to support social plans	10,200	10,000
Number of trainee positions from rural areas	189	200

Other Information

Arby Signer has recently invested heavily in IT security to prevent fraud.

Required

EXAMINE the performance of The Arby Signer in 2019.

5. **Spicy** is one of the top Engineering coaching institute, it operates a chain of 157 centres across the country of Mayaland. Spicy is equipped with the team of top most faculties for preparation of JEE who are known for giving best results year after year. Students willing to join Spicy have to appear for admission test/(s). These tests help the students in understanding their potential and also provide them with the opportunity for scholarships that help them rewards academically and monetarily. In addition, Spicy provides comfortable class rooms, libraries, and ambience for overall development of students. Spicy delivers quality coaching for JEE by providing innovative ways and therefore prepares students for all challenges. Spicy prides itself on their results and level of educational service it offers to its students.

It has previously been successful in attracting students across the nation. However, in recent years, the number of enrolment of students has started to decline as a result of introduction of online platform. Several recent surveys have painted a disappointing picture for market conditions in 2020. A survey by the “My Education Outlook” over the month to 31st December found that only one in five respondents believes their business will be better off in 2020 compared with 2019.

Spicy has a policy to set the standard fees based on the location of a particular coaching centre. It also takes into account fees charged by the competitors. However, the institute’s managers have the right to offer discount to underprivileged students or scholarship to merit students, and to reduce fees structure when student hiring ratio (SHR) in their class rooms are expected to be low. The average standard fees per student, across all the centers of institute, was M\$ 15,000 in 2019, compared to M\$12,000 in 2018.

Spicy also generates revenue from the additional services available to students, such as selling books, providing test series etc. The series of periodic tests are identical to the pattern of various competitive engineering examinations and give sufficient practice to the aspirants for the same. Every test attempted by the students gives them a clear idea of their understanding of the concept, timeliness, strengths, weaknesses, and ranking amongst the aspirants across Mayaland.

Summary from Spicy's Management Accounts

	Year ended 31 Dec. 2019 M\$'000	Year ended 31 Dec. 2018 M\$'000
Gross Fees	1,11,980	1,05,977
<i>Less: Fees Discount/Scholarship</i>	(18,783)	(13,900)
Net Fees	93,197	92,077
<i>Add: Other Revenue (selling books, tests etc.)</i>	27,250	25,895
Total Revenue	120,447	117,972
<i>Less: Operating Costs</i>	(97,685)	(93,758)
Operating Profit	22,762	24,214

Other Performance Information

	Year ended 31 Dec. 2019	Year ended 31 Dec. 2018
Capital Employed	M\$ 3,77,50,000	M\$ 3,77,10,000
Average SHR	78%	73%
Average SSR (Students Satisfaction Rating)	8	9.5

At the end of the course, or at the end of the unit within the course, students are asked to complete a questionnaire rating based on a scale of 1–10 where '10' represents 'Excellent' with various aspects of course, for example, the knowledge level of faculty, the quality of support material, and the approachability of faculty to ask them questions.

Two issues are becoming increasingly frequent in the students' comments alongside the scores:

- Students complaint that faculties in the institute were full of attitude not taking the doubts of students, instead of encouraging students to solve their doubts in the class, they insulted the students who raise their doubt during class. So, their standard of education has not been as good as in previous sessions.
- Students in classes need special individual attention, there is need of smart classes, doubt solving sessions etc. to improve the result of students.

Spicy had planned to start a remedial programme for average students for all the centres at the beginning of 2018. However, this programme has been put on hold to reduce expenditure.

Required

ANALYZE Spicy's performance for the year ended 31 December 2019.

Outsourcing Decision

6. **Mount Sports Manufacturing Facilities** (MSMF) deals in manufacturing of sports articles. Although MSMF is major market player but can capture the market further. Currently MSMF manufactures five types of badminton shuttle named as P-101, P-102, P-103, P-104 and P-105. Production facilities are limiting factor at MSMF. Production and marginal cost data of these 5 products are specified in table below;

Particulars	P-101	P-102	P-103	P-104	P-105
Monthly production (in units)	1,000	1,200	2,000	3,000	1,500
Direct Material Cost (₹per unit)	6	4	7	3	6
Direct Labour Cost (₹per unit)	4	9	5	8	5
Variable Production Overhead (₹per unit)	2	3	2	2	1

On drive to cost leadership strategy, MSMF is thinking to out-source some of the products. Shuttles can be sourced from a well-established company 'Protease' at the following prices. There is no tie-in between products, all products can outsources individually. These costs are on CIF basis;

Particulars	P-101	P-102	P-103	P-104	P-105
Outsourcing Cost/Buy in Cost (₹per unit)	17	18	18	11	15

Company-wide fixed overheads are of ₹15 Lacs each year. Out of which ₹2,40,000 is directly attributable to the production of these 5 products on annual basis. This fixed overhead of ₹2,40,000 is evenly split across such 5 products and entirely avoidable. Till date company does not have experience to outsource any element of production.

Mr. Singh who is newly appointed management accountant, bring the huge experience to the organization on cost control and reduction techniques. While discussing the possibility of outsourcing with CFO, Mr. Singh explained the limitation of out-sourcing and also presents a white paper on gain sharing arrangement; which can be entered with supplier to whom outsourcing is considered.

CEO just entered into the office of CFO (where such discussion is ongoing) on verge of such discussion, but he heard about gain sharing arrangement and curious to know further about the same.

Required

CEO post presentation/ discussion seeks report from Mr. Singh to RECOMMEND, the product/(s) which should be outsourced. Report should also EXPLAIN gain sharing arrangement along with aspects that MSMF need to consider, ensuring success out of gain sharing arrangement as a part of out-sourcing contract with Protease.

Customer Relationship Management

7. **Jawahar Stationary Mart (JSM)** is located in centre of city “X” and popular for wide range of stationary products at competitive rate. Box files and cobra files are among the major product of JSM. JSM clients majorly, include medium and large corporate offices apart from reasonable base of retail clients. Mr. Ronit who done his masters in operations and marketing, recently join the family business (JSM). Mr. Ronit during first week itself, identify there are regular complaints from corporate clients regarding ‘delivery of items, which are different from what is ordered’ and ‘for not meeting the requirements’. Mr. Ronit understands consumer behavior is very critical in nature, if understood well and used through-out the business operation; then can be key success factors. Hence with intent to establishing the integrated relations with customers at JSM, Mr. Ronit advise marketing team to start recording the date regarding customer in systemic manner and reporting of same.

Following is information regarding five major customers, who are regularly orders printed cobra files (Product code – J-Cobra 10) from JSM.

Particulars	A	B	C	D	E
No. of units sold	6,000	8,000	10,000	7,000	8,000
Margin per unit	6	7.5	7	8	10
No. of purchase order	10	30	25	20	10
No. of deliveries	3	4	6	4	5
Kilometers per delivery	100	185	50	250	50

Cost of processing the order is INRs 2,000 per order and cost of handling material is INR 0.15 per item, whereas transport cost is 3 per kilometer for delivery of goods. 3 rushed deliveries made to ‘B’, cost for rush delivery is INRs 800 per delivery.

Required

- (i) ANALYZE customer profitability for JSM.
- (ii) EXPLAIN three fundamental aspects of CRM to facilitate building relationship with profitable customer/(s).

Just in Time

8. **Pearson Metal and Motor Works (PM²W)** deals in manufacturing of the copper wired electronic motor, which is specifically designed. PM²W is thinking to shift from traditional system to JIT system as part of process innovation.

CEO among the other top bosses at PM²W are hopeful that implementation of JIT will not only improve value in value chain for end consumer, but also improve overall manufacturing cycle efficiency. JIT pre-implementation team was formed to evaluate the probabilities, which collects following actual and estimated data about process;

Activity Category	Traditional System (Actual)	JIT System (Estimated)
Inspection	40	30
Storage	80	20
Moving	20	10
Processing	60	40

All data in minutes

Further, PM²W decided to practice single piece flow under JIT. PM²W received an order which is due to manufacture and delivered for 10 such motors. Total available production time to produce what customer demands is 480 minutes out of which it normal practice that 30 minutes will be spent in shutdown and cleaning. CEO is also considering JIT purchase apart from JIT production.

Required

- (i) EXPLAIN just in time.
- (ii) CALCULATE the 'takt time' and INTERPRET the results.
- (iii) ADVISE whether company should shift to JIT.

Theory of Constraints

9. **Z Plus Security** (ZPS) manufactures surveillance camera equipment that are sold to various office establishments. The firm also installs the equipment at the client's place to ensure that it works properly. Each camera is sold for ₹2,500. Direct material cost of ₹1,000 for each camera is the only variable cost. All other costs are fixed. Below is the information for manufacturing and installation of this equipment:

Particulars	Manufacture	Installation
Annual Capacity (camera units)	750	500
Actual Yearly Production and Installation (camera units)	500	500

Required

The questions below are separate scenarios and are not related to each other.

- (i) IDENTIFY the bottleneck in the operation cycle that ZPS should focus on improving. Give reasoning for your answer.
- (ii) An improvement in the installation technique could increase the number of installations to 550 camera units. This would involve total additional expenditure of ₹40,000. ADVISE ZPS whether they should implement this technique?
- (iii) Engineers have identified ways to improve manufacturing technique that would increase production by 150 camera units. This would involve a cost ₹100 per camera unit due to necessary changes to made in direct materials. ADVISE ZPS whether they should implement this new technique.

Standard Costing

10. **KONY** Ltd., based in Kuala Lumpur, is the Malaysian subsidiary of Japan's NY corporation, headquartered in Tokyo. KONY's principal Malaysian businesses include marketing, sales, and after-sales service of electronic products & software exports products. KONY set up a new factory in Penang to manufacture and sell integrated circuit 'Q50X-N'. The first quarter's budgeted production and sales were 2,000 units. The budgeted sales price and standard costs for 'Q50X-N' were as follows:

	RM	RM
Standard Sales Price <i>per unit</i>		50
Standard Costs <i>per unit</i>		
Circuit X (10 units @ RM 2.5)	25	
Circuit Designers (6 hrs. @ RM 2)	12	(37)
Standard Contribution <i>per unit</i>		13

Actual results for the first quarter were as follows:

	RM '000	RM '000
Sales (2,000 units)		158
Production Costs (2,000 units)		
Circuit X (21,600 units)	97.20	
Circuit Designers (11,600 hours)	34.80	(132)
Actual Contribution (2,000 units)		26

The management accountant made the following observations on the actual results–

“In total, the performance agreed with budget; however, in every aspect other than volume, there were huge differences. Sales were made at what was supposed to be the highest feasible price, but we now feel that we could have sold for RM 82.50 with no adverse effect on volume. The Circuit X cost that was anticipated at the time the budget was prepared was RM 2.5 per unit. However, the general market price relating to efficient purchases of the Circuit X during the quarter was RM 4.25 per unit. Circuit designers have the responsibility of designing electronic circuits that make up electrical systems. Circuit Designer’s costs rose dramatically with increased demand for the specialist skills required to produce the ‘Q50X-N’, and the general market rate was RM 3.125 per hour - although KONY always paid below the normal market rate whenever possible. In my opinion, it is not necessary to measure the first quarter’s performance through variance analysis. Further, our operations are fully efficient as the final contribution is equal to the original budget.”

Required

COMMENT on management accountant’s view.

SUGGESTED ANSWERS/HINTS

1. The agreement between Raya and Livlife is **Gain Sharing Arrangement**. Gain sharing (also known as cost saving sharing) arrangement is an approach to the review and adjustment of an existing contract, or series of contracts, where the adjustment provides *benefits to both parties*. A fundamental form of gain-sharing is where a supplier agrees to perform its side of the contract with *no guarantee* of receiving a payment. Instead, any payment received is based upon the benefits that emerge to the customer as a result of the successful completion of the supplier's side of the bargain.

Livlife and Raya has also entered into such arrangement. This is clearly a risky stance for the supplier i.e. Livlife, because it could spend a fortune and walk away with nothing. Alternatively, if the benefits to Raya are substantial, Livlife could find itself rewarded with a large return. Cost savings might be attained from reducing the cost of supplies, implementing new skill and technologies, revised delivery time, improvements in operations etc.

The gain, benefit, or advantage to be shared is **not necessarily financial**, although financial benefits are expected to occur frequently. The Raya, for instance, will not necessarily take cost savings in the form of a lower contract value but might require a *higher specification* for medical treatment. However, to assess any financial benefit, both parties have to provide each other with access to relevant cost numbers to determine the basis for the assessment of the benefit and the calculation and sharing of the benefit.

Many contracts involving these arrangements have emphasis on greater openness and shared development and improvement. In the given case gain-sharing deals are, on the face of it, a win-win situation for both Raya and Livlife, interest of both are aligned. Livlife is trying to save costs of Raya while Raya is trying to get world class services.

2. Fresh Bazar sells these fruits and vegetables at the almost same price as of local vendors in local mandis. Though the quality of local vendors is not as good as Fresh Bazar but local public prefer to buy fruits and vegetables from local vendors on road sides. This is because of the *bargaining power of the buyer* is more from local vendor while Fresh Bazar sells at fixed price.

Fresh Bazar should try to reduce the cost by closely study of the organization's **value chain**. In agriculture sector, approximately 30% of total production lost every year before it reaches to the consumer. Fresh Bazar can reduce these losses by analyzing the various segments of value chain. In India, each segment of agriculture sector like production, processing, marketing etc. work in an isolated manner and not in integrated manner, resulting in multiple losses in value chain. Fresh Bazar should attempt to integrate all the segments of value chain and try to remove all the intermediaries

involved, benefiting both farmers and consumers. Moreover, contract farming participation could enhance the overall value chain performance in terms of increasing production, lowering transaction costs and boosting quality of the output product. Contract farming is an agreement between buyer and farmers based on which agriculture production being carried out, it also stipulates the quality required and the price at which the farmers agreeing to deliver at a future date.

At present, Fresh Bazar purchases fruits and vegetables from wholesale mandis. Instead of buying from wholesale mandis Fresh Bazar should participate in *contract farming* to reduce the input price risk i.e. price of fruits and vegetables which fluctuate every day in wholesale mandi. Through contract framing Fresh Bazar can also agree to support the farmers by supplying of inputs, assisting with preparation of land, information about latest technologies, effective use of power supply, providing production advice and transporting produce to its premises to maintain the desired level of quality.

In addition, Fresh Bazar can also use *target costing* to reduce their other operating costs.

Since the small road side vendors continue to coexist, therefore, Fresh Bazar should also supply their fruits and vegetables to them. In this way, they can avoid opposition from small vendors and farmers, it's a win-win situation benefiting everyone.

3. Report

Addressed to;
Office of CEO,
Gold Star Limited (GSL).
Dated – 07th Jan 2020

Report on operational aspect of 5S and expected advantage

5S represent scientific way of *workplace management* so that work can be performed effectively, efficiently, and safely. 5S was come into practice as part of Toyota Production System in early of mid- 20th century. 5S is usually considered as essential component of lean manufacturing, and foundation of eight pillars of TPM. The 5S refer to five Japanese words- seiri (sort), seiton (set in order), seiso (shine), seiketsu (standardize), and shitsuke (sustain). They define a system for workplace organization and standardization. *Sort* means to separate needed and unneeded materials and to remove latter. *Set in Order* means to arrange materials and equipment so that they are easy to find and use. *Shine* means to conduct a clean-up campaign. *Standardize* means to formalize procedures and practices to ensure that all steps are performed correctly.

Finally, *sustain* means to form habit of always following first four Ss through training, communication etc.

Note - Later 6th S was also introduced and i.e. safety.

S1 - Sorting

In order to over-come the problem of 'idle laying over material' all across production floor area, sorting of material is need to be done in following categories:

- Not needed at all – to be moved to red tag area.
- Needed but not now – need to be moved to store with yellow tag.
- Needed but not here – to be moved to red tag area.
- Needed but not so much quantity.

For purpose of doing sorting GSL need to be answered following questions:

- What is required?
- How much required?
- When it is required?
- Where it is required?

Sorted material depending upon category can be **separated** and made ready for movement/ shift, in order to segregate the sorted material; *visual aid technique* can be used by attaching coloured tags to each category of material (called visual sorting). Following two categories of tag can be used:

Red tag – A card containing detailed information of 'unwanted things' with a given time limit for further action to be taken.

Yellow tag – A card containing detailed information of 'needed things', but not now with a given time limit for further action to be taken – usually kept in store.

Sorting can help GSL to identify:

- a) Obsolete material; parts (jigs/tooling) not required as the design has become obsolete.
- b) Defective material; part can't be used as it is.
- c) Scrap material.
- d) Material which not in place – kept at wrong place.
- e) Unnecessary/extra/not useful material.

Sorting can also help GSL in reduction of material lying vacant on production floor, by segregating them into different categories and ensure that rarely used material either removed or tagged in red tape area. If material were sorted than 'loss of material' which was lying vacant near to assembly line during fire incident could be saved.

S2 - Set in order

Systemic arrangement by ensuring 'place for everything and everything in its place'. Purpose is to *save search time* and *eliminate motion waste*, through visual management; with *search-free* and *count free* arrangement.

Colour can be best visual aid – RYGB

R – Red – Critical
Y – Yellow – Reorder
G – Green – Design
B – Blue – Excess

Note – Mapping of RYGB to feature is *purely illustrative*.

In order to implement **systematic arrangement**, GSL need to consider and answer;

- Analyse status.
- Decide – Which things will belong where?
- Decide – How they should be put away?
- Get everybody to follow rules through indexing, labelling etc.

Expected benefits of set in order to GSL

- a) *Faster retrieval* of things results in elimination of search time.
- b) Opportunity to *correct the abnormalities faster* as visibility improve by system itself.
- c) *Space saving* by systematic arrangement.
- d) *Efficiency of work* improves as things are available when they are actually needed.

Thus, S can solve the specifically problem of *non-accessibility* of tools.

S3 – Shine

Ensure there must be *cleanliness* 'in and of' everything. Obviously, if there less number of items, then there is less to clean.

- Cleaning should be with meaning.
- Cleaning is inspection (from all aspects – front, rear, left right, top and bottom).

Shine will help GSL to keep things in order with regular **cleaning** and **upkeep**, so that maintenance become 'preventive function' rather corrective and any incident, likewise fire occurrence on assembly-line; must be avoided. This will ensure larger utility out of Machine and Plants which will increase *replacement cycle* and *save investment* by lowering down maintenance and replacement cost.

S4 – Standardization

Establishing the '**standards**' and make '**operating procedure**' to create *consistency* and ensure that *all steps are performed correctly*. There are;

- Fix responsibilities for implementing & evaluating system.
- Integrate these responsibilities into routine work.
- Check how well the system is working and sustaining itself.

In order to ensure TPM all 5S are essential, but standardisation is key, GSL is facing large set of problem in assembly of electronic cycles and reason being absence of SOPs. Hence, by establishing the standardised process GSL can identify Critical Success Factors (CSFs) and benchmark the Key Performance Indicator (KPIs) against each CSFs.

S5 – Sustain

In order to sustain with the established standard, it is required to do;

- Daily monitoring
- Improving ownership by allocating areas
- Using 'red tag campaign'
- Communicating visually through fixed point photography
- Structured communication
- Continuous training of all employees
- Periodic audits at all level
- Motivating staff through recognition

Since 5S is not a onetime exercise, it is *continuous process*, hence, it is essential to **sustain the practices followed** during earlier 5Ss. GSL witness the high attrition rate at top management level, hence, it is important that GSL must inculcate practice of 5S in the system and work culture and sustain them on continuous basis, irrespective of attrition.

Sixth S is 'safety' which was added later on, in order to ensure safety while performing all the remaining 5S.

Further details can be tabled on requisition basis.

Closure of Report

Management Accountant
(For Management Accounting Division)
Gold Star Limited

4. The balanced scorecard approach looks both financial performance and non-financial performance. In order to gain competitive advantage, organizations have to be conscious of the needs and convenience of their customers. The Arby signer has a vision and strategy which goes far beyond just making money. They want to help the community and give something back to customers also. Hence, performance measures which address whether the Arby is being successful in pursuing their vision has been incorporated in Balanced Scorecard. The performance of the Arby will be considered under each of the titles used in the balanced scorecard:

Financial Perspective

The Arby has had a year of diverse achievements when looking at the extent to which it has met its financial targets. Its ROCE shows how efficiently it has used its assets to generate profit for the business. The target of ROCE for the year was 14% but it has only achieved 13% return. The Arby's Net Income, however, was in fact \$6 million higher than its target, which is good. The most likely reason for the under target ROCE is possibly the investment which Arby has made in IT security. Whilst this may have reduced ROCE, this investment is essentially a good idea as it helps Arby to pursue its mission and will keep customers happy.

Customer Perspective

Regarding its customers, Arby's performance is better in the current year. It has not just exceeded its target sale to first time buyers by 20,000 but also improved its customer retention ratio, which is good for company to pursue its vision of being a trusted healthcare partner.

Customers complaints has reduced from 2 complaints to 1.5 complaints for every 1,000 customers, the exact reason is not clear but it might be because of improved processes and team efforts of employees.

Also, the number of glasses donated exceeded the target. It shows that company has exceeded its target of helping people which is good for the company's reputation.

Internal Processes

Number of business processes within Arby re-engineered has exceeded the target, which is very good and the impact of which may be reflected in the lowering of level of customer complaints. Likewise, the investment to improve IT security has been a great success, with only three incidences of fraud per 1,000 customers reported compared to the target of 10. However, only two new services have been made available via online application, instead of the target of four, which is unsatisfactory. But fortunately, its CO₂ emission is below to the target level.

Learning and Growth

The Arby has succeeded to train its employees to instruct retailers. However, the number of employees trained to instruct retailers are comparatively lesser than targeted, shortfall in training of employees to give instruction to retailers may have an impact on the Arby's failure to meet its target of market expansion.

Number of hours (paid for) used to support social plans are comparatively higher, it results in additional costs which could have contributed to the fact that the Arby did not quite meet its target for ROCE. Further, company has not met aim for helping the rural area as targeted. This may be because the number of candidates applying from these areas was not as high as planned and this situation is beyond companies control.

In general, the Arby Signer had a successful year, meeting many of its targets.

5. Performance of Spice for the year ended 31March 2019

Revenue

Gross Fees of Spicy has increased by 5.66% in 2019, which reflects the higher SHR (78% vs. 73%) and the increase in average standard fees per student (M\$ 15,000 vs. M\$ 12,000 per student). However, this information is not enough to conclude how well institute have performed in the year to 2019.

Net Fees has only increased 1.22%, this reflects the significant 35.13% increase in the discounts or scholarships offered.

It is observed that even though % change in the SHR is +6.85% (from the budgeted level of 73% to 78%), revenue from fees, net of discount/ scholarship, only increased by 1.22%. This means that average fees collection per student in 2019 was lower than in 2018, despite the higher average standard rate (M\$15,000 vs M\$12,000).

It is also important to mention that in tough market conditions, managers have managed SHR, higher than budgeted figure by offering/ awarding the discount or scholarship.

With the increase in SHR, one of the best possible benefit is that, even if students are paying less fees, they will generate additional revenue from sale of books and test series. For example, in the given case additional revenue has increased by approximately 5.23% from M\$ 25,895 to M\$27,250.

In total, revenue has increased 2.1% in 2019 v 2018.

Overall, given the tough market conditions, any increase in revenues can be viewed as positive, however, the revenue achieved from per student should be greater than the variable cost of providing it.

Operating Profit

Notwithstanding the increase in revenue, operating profits have fallen by M\$ 14,52,000 (6.00%) between 2019 and 2018, due to a sizeable increase in operating costs. There is no detail about Spicy's operating costs, for example, the split between fixed and variable costs. However, in tough market conditions, cost control is likely to be very important. As such, increase in operating costs M\$ 39,27,000 (4.19%) between 2018 and 2019 is potentially a cause for concern and the reasons for the increase should be investigated. However, when looking to reduce costs, it will be very important to do so in a way which does not compromise student's satisfaction. More generally, Spicy needs to avoid cutting expenditure in areas which will have a detrimental impact on student satisfaction ratings, for example, not providing enough time by faculty to students for doubt solving.

The increase in costs has also led to a fall in operating profit margin. The margin falls from 18.36% to 16.35%. This reduced profitability is also reflected in the institute's return on capital employed which has fallen slightly from 64.21% to 60.30%. This suggests that the value which Spicy is generating from its assets is falling.

Students Satisfaction Rate (SSR)

Although the reduction in profitability should be a concern for Spicy, the reduction in student satisfaction rate should potentially be seen as a greater cause for concern. The rating suggests that, in the space of one year, it has lost 1.5 points in the scale of 1-10, being the top Engineering Coaching Institute, Spicy cannot afford to lose the points.

Spicy Institute pride itself on their results and level of educational service it offers to its students. Both factors are important considerations for students when considering whether or not to join Spicy Institute.

Therefore, Spicy needs to ensure that student satisfaction levels are maintained as high as possible and it is also important to know that how its students feel about the services it offers.

Moreover, the decision to defer the remedial programme is likely to have a detrimental impact on the future performance.

6. Report to;
Office of CEO,
Mount Sports Manufacturing Facilities (MSMF),
Dated – 03rd Jan 2020

Report on Outsourcing of Products to Protease

- (i) **Recommendation on out-sourcing of the products – Product P-102 and P-104** can be out-sourced. (see computations below)

Particulars	P-101	P-102	P-103	P-104	P-105
a. Monthly production (in units)	1,000	1,200	2,000	3,000	1,500
b. Direct Material Cost (₹per unit)	6	4	7	3	6
c. Direct Labour Cost (₹per unit)	4	9	5	8	5
d. Variable Production Overhead (₹per unit)	2	3	2	2	1
e. Marginal Cost (₹per unit) ...(b)+(c)+(d)	12	16	14	13	12
f. Monthly Total Marginal Cost/Variable Cost ... (e)×(a)	12,000	19,200	28,000	39,000	18,000
g. Monthly Allocable Fixed Overhead*	4,000	4,000	4,000	4,000	4,000
h. Total Monthly Cost Production-in-house ... (f)+(g)	16,000	23,200	32,000	43,000	22,000
i. Outsourcing Cost/ Buy in Cost (₹per unit)	17	18	18	11	15
j. Total Monthly Cost - Outsourcing/Buy in ... (i)×(a)	17,000	21,600	36,000	33,000	22,500

Total monthly cost of in house production is ₹1,36,200 and Total comparable monthly cost of outsourcing/Buy-in is ₹1,30,100. There is overall saving of ₹6,100, but since there is no tie-in between products, hence decision on all products whether can be outsourced or produced in-house can be taken individually.

The above calculation suggests that only **P-102** and **P-104** can be sourced through outsourcing due to, whereas **P-101**, **P-103** and **P-105** can be produced more cheaply in-house.

(*)

Since avoidable in nature, hence relevant for decision making. ₹2,40,000 is annual cost, hence monthly fixed overhead expenditure will be ₹20,000.

However, following aspects needs to be kept in mind, prior to entering to out-sourcing arrangement of product P-102 and P-104

Issue 1

If products **P-102 and P-104** are outsourced, the company would then have spare capacity. Since the production function/capacity is a limiting factor and there is scope of selling the further units of **P-101, P-103 and P-105**; in order to acquire the market share. Hence, spare capacity is of great importance and will be a powerful argument for outsourcing.

Issue 2

The reaction of the workforce at MSMF is also need to be considered because of two reasons;

- a. If production of **P-101, P-103 and P-105** cannot be expanded to take up the spare capacity on account of out-sourcing of **P-102 and P-104**, then lay-off may be required – Which may cause problem like strike by remain workforce or an industrial dispute.
- b. Facts also suggest that products **P-102 and P-104** are labour intensive (due to high comparative high labour cost). Hence, even the spare capacity on account of out-sourcing of **P-102 and P-104** is used, and then also the some of labour forces need to be retrenched.

Issue 3

Even if lay-off is accepted by workforce, then also cost associated with redundancies may be critical. Such cost is relevant for decision-making, hence should be considered.

Issue 4

Since the MSMF has no experience in the outsourcing till now, hence while dealing with Protease, MSMF need to ensure;

- a. Timely delivery in right quantity
- b. Quality of supplies
- c. Penalties in case of default

- (ii) **Gain Sharing Arrangement** by MSMF as part of outsourcing agreement with Protease

Gain Sharing Arrangement is a contractual arrangement where, entity (MSMF) & outsourcing supplier (In this case protease) share the financial gain which result out of either productivity gains or increased efficiency at end of outsourcing supplier from continuous improvement, transformation, or innovation.

This arrangement in form of clause is usually included in Master Agreement of outsourcing. Outsource supplier find it unique selling point and entity is also on for continuous improvement apart this both will get share in cost saved.

Although gain sharing arrangement is largely useful in case of outsourcing services agreement, but MSMF can also while entering out-sourcing contract with Protease for **P-102** and **P-104**; but following aspects need to be considered;

Reason of failure of Gain Sharing Arrangement - Gain Sharing Arrangement sounds great but in practice it is quite difficult to execute. Even after a considerable level of efforts due to following reasons it may fail;

- a. Unstructured/Poorly structured terms of arrangement, in outsourcing contracts.
- b. Error in implementation.
- c. Relationship between outsource supplier and entity.

Precaution need to be taken - Action plan for executing gain share arrangement must contain;

- a. Be specific in outsourcing agreement.
- b. Predefined formula for sharing of benefits and period thereof.
- c. Effort from entity, because innovation is not only responsibility of outsource supplier.
- d. Constitute innovation team to create an innovation structure, generate the idea and execution of same.

Overall

In consideration of above analysis, company should consider the outsourcing of **P-102** and **P-104** by entering out-sourcing contract with Protease. At this point, it is important to note that cost analysis emphasizes purely quantitative, financial considerations. However, outsourcing decisions are often influenced by qualitative factors, which are not directly affected in calculations. The impact of the same should also be taken into consideration. The issues suggested above are not exhaustive. Further, before opting gain sharing arrangement, the same should also be reviewed carefully from a business, legal, and tax perspective.

I hope this helps - if you need any further information, please let me know.

Closure of Report

Mr. Singh,

Management Accountant

(For Management Accounting Division)

Mount Sports Manufacturing Facilities (MSMF)

7. (i) Statement of the Customer Profitability at JSM

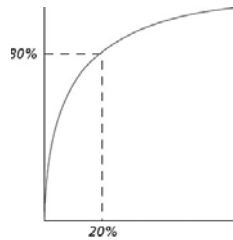
Amount in INRs

Particulars	A	B	C	D	E
Margin (no. of units sold × margin per unit) ... (A)	36,000	60,000	70,000	56,000	80,000
Customer Attributable Costs:					
Cost of Processing Purchase Orders (no. of purchase order × cost of processing the order)	20,000	60,000	50,000	40,000	20,000
Product Handling Cost (no. of units sold × cost of handling per item)	900	1,200	1,500	1,050	1,200
Delivery Cost (no. of deliveries × km per delivery × cost per km)	900	2,220	900	3,000	750
Cost of Rush Deliveries (no. of rush deliveries × cost per rush delivery)	---	2,400	---	---	---
Total ... (B)	21,800	65,820	52,400	44,050	21,950
Profit (or Loss) ... (A) – (B)	14,200	–5,820	17,600	11,950	58,050
Profit/ Net Revenue (in % age)	39.44%	–9.7%	25.14%	21.34%	72.56%

Analysis

From above, it can be concluded that customer A, C, and D are less profitable than customer E; whereas customer B is causing losses. Customer B provides a positive operating margin but is unprofitable when customer attributable costs are considered. This is because customer B requires more sales orders than the other customers. In addition, the customer has rush delivery costs.

This analysis can make sense, if interpreted, considering the 'Pareto Analysis'. Pareto Analysis named after economist Vilfredo Pareto, who specifies that 80% of consequences come from 20% of the causes i.e. 20% of customer provide 80% of the profit. Means input and output may not be balanced. (Curve of revenue, as shown in figure; represent that initially large amount of revenue comes from small portion of sales/customers only - such small proportion of customers is critical to success of entity).



Although here proportion of 80:20 don't hold truth, but for JSM; major portion of profit (around 60%) coming from customer E only, therefore, customer E is critical to JSM. Special attention can then be given to enhancing the relationships with the customer E to ensure that customer E cannot migrate to other competitors. In addition, greater emphasis can be given to attract new customers that have the same attributes as the most profitable customer E.

Further, there is no point in serving customer B, but instead of refusing to trade with customer B, if possible; it may be better to turn it into profitable customer. Customer B can be made profitable if action is taken to convince the customer B to place a smaller number of larger quantity orders and avoid rush deliveries. If customer B cannot be convinced to change its buying behavior, selling prices should be increased to cover the extra resources consumed.

- (ii) Supply chain management is the technique to integrate the supplier, manufacturing, store, and distribution function efficiently; in order to procure, produce and distribute at/in right time, quantity and place respectively. For effective distribution, CRM can be enabling tool. CRM is an integrated approach to manage and coordinate customer interactions to identifying, acquiring, and retaining customers. CRM enables businesses to understand and retain customers (through better customer experience) apart from attracting new customer, in order to increase profitably and decrease customer management costs. CRM system, comprises following three fundamental aspects to facilitate building relationship with profitable customers –

- **Operative CRM** takes care of individual transactions and is used by operational team. Interactions by customers are kept in the data base and are used later by the service, sales, and marketing team for operational decisions. In JSM, the staff who is responsible to deal with customer must be given access to customer's details including all the information of activities performed earlier. This will enhance the JSMs' staff's efficiency to deal with customer-facing processes in a better way.
- **Analytical CRM** analyses the data created on the operational side of the CRM effort for evaluation and prediction of customer behavior. In JSM, analytical CRM can highlight the patterns in customers' behavior which will help sale team while pitching the product at JSM.

- **Collaborative CRM** ensures that information about customer must flow seamlessly throughout the supply chain, majorly distribution channel; in form of collaborative effort by all associated department of JSM to increase the quality of services provided to customers. Increase in utility at customer end will result in increased loyalty. Collaborative CRM comprises interactive technology like email, digital media to simplify the communications between customers and staff which would help in building relationships.

8. (i) **Just-in-time (JIT)** is a collection of ideas that streamline a company's production process activities to such an extent that wastage of all kind viz., of time, material and labour systematically driven out of the process with single piece flow after considering takt time.

In JIT, production facility is required to be integrated with vendor system for signal (Kanban) based automatic supply which depends upon demand based consumption. Under JIT system of inventory storage cost is at lowest level due to direct issue of material to production department as and when required and resultantly less/no material lying over in store or production floor.

Prerequisite of JIT system is integration with vendor, if vendor is not integrated properly or less reliable, then situation of stock out can arise and which can result into loss of contribution.

Multitasking by employee is another key feature of JIT, group of employees should be made based upon product instead based upon function. Hence, functional allocations of cost become less appropriate.

Overall, JIT enhance the quality into the product by eliminating the waste and continuous improvement of productivity.

- (ii) **Takt Time** is the maximum available time to meet the demands of the customer; this will help to decide the speed of/ at manufacturing facility.

Takt time is the average time between the start of production of one unit and the start of production of the next unit, when these production starts are set to match the rate of customer demand.

$$\text{Takt Time} = \frac{\text{Available Production Time}}{\text{Total Quality Required}}$$

Here,

Available Production Time is 'total available time for production' – 'planned downtime i.e. spent in shutdown and cleaning' i.e. 450 minutes = 480 minutes – 30 minutes.

Total Quantity Required is 10 units

$$\begin{aligned} \text{Takt Time} &= \frac{450 \text{ minutes}}{10 \text{ units}} \\ &= 45 \text{ Minutes} \end{aligned}$$

Note - Heijunka can be applied in order to reduce variation between 'Takt times' over the production.

Interpretation

Customer's demand is 10 units, to calculate the takt time, divide the available production time (in minutes) by the total quantity required. The takt time would be 45 minutes. This means that process must be set up to produce one unit for every 45 minutes throughout the time available. As order volume increases or decreases, takt time may be adjusted so that production and demand are synchronized.

(iii) Advise on Shifting to JIT

To evaluate how much of the old cycle time was spent in inventory, we need to know how organizations assess the efficiency of their **manufacturing processes**. One commonly used measure is process cycle efficiency and to calculate the same every process is breakdown into combination of activities such as value added activities, non-value added activities and non-value added activities but strategic activities. In order to generate highest value to customer, only *value added activities* are included in process. But those non-value added activities, which are strategic in nature, also need to be part of process. Therefore, it may be possible that entire process is not efficient.

To measure efficiency of process, managers keep track of the relation between 'times taken by value added activities' in comparison 'total cycle time'. Such relation/ratio is processing cycle efficiency.

$$\text{Process Cycle Efficiency} = \frac{\text{Value Added Time}}{\text{Cycle Time}}$$

Processing time is considered as value added time; whereas time spend on inspection, storage and moving is non-value added time and included in cycle time. The higher the percentage, less the time (and costs) needs to be spent on non- value added activities such as moving and storing etc.

Computation of Processing Cycle Efficiency

Sr. No.	Activity Category	Traditional System (Actual)	JIT System (Estimated)
A.	Inspection	40	30
B.	Storage	80	20
C.	Moving	20	10
D.	Processing	60	40
E.	Value Added Time ... (D)	60	40
F.	Cycle Time ... (A)+(B)+(C)+(D)	200	100
G.	Process Cycle Efficiency (E)/ (F)×100	30%	40%

Of the 200 minutes required for manufacturing cycle under PM²W's traditional system, only 60 minutes were spent on actual processing. The other 140 minutes were spent on non- value added activities, such as inspection, storage, and moving. The process cycle efficiency formula shows that processing time equaled to 30% of total cycle time. The cycle time is reduced substantially in the JIT system from 200 minutes to 100 minutes. In addition to this, the amount of time that used up in inventory i.e. non-value-added activities is also reduced. Therefore, process cycle efficiency has been increased from 30% to 40%. This significant improvement in efficiency over the previous system comes from the implementation of JIT system. Therefore, it is advantageous to shift to JIT system.

9. (i) **Identification of Bottleneck:** Installation of cameras is the bottleneck in the operation cycle. The annual capacity for manufacturing and installation are given to be 750 camera units and 500 camera units respectively. Actual capacity utilization is 500 camera units, which is the maximum capacity for the installation process. Although, ZPS can additionally manufacture 250 camera units, it is constrained by the maximum units that can be installed. Therefore, the number of units manufactured is limited to 500 camera units, subordinating to the bottleneck installation operation. Therefore, ZPS should focus on improving the installation process.
- (ii) **Improving Capacity of Installation Technique:** Every camera sold increases the through put contribution by ₹1,500 per camera unit (sale price ₹2,500 per camera unit less direct material cost ₹1,000 per camera unit). By improving the current installation technique an additional 50 camera units can be sold and installed. This would involve total additional expenditure of ₹40,000. Hence, the incremental benefit would be:

Particulars	Amount (₹)
Increase in throughput contribution (additional 50 camera units ₹1,500 per camera unit)	75,000

Less: Increase in total expenditure	40,000
Incremental benefit	35,000

Since the annual incremental benefit is ₹35,000 per annum, ZPS should implement this improvement to installation technique, the current bottleneck operation.

- (iii) **Improving Manufacturing Capacity:** Every camera sold increases the throughput contribution by ₹1,500 per camera unit (sale price ₹2,500 per camera unit less direct material cost ₹1,000 per camera unit). By improving the current manufacturing technique an additional 150 camera units can produced. This would involve a cost ₹100 per camera unit due to necessary changes to made in direct materials. Therefore, number of units manufactured can increase to 650 camera units. However, production of 150 camera units will not translate into additional sales, because each sale also requires installation by ZPS. In a year only 500 camera installations can be made, leading to an inventory pile up of 150 camera units. This is detrimental to ZPS, since it does not earn any contribution by holding inventory. Therefore, ZPS should not go ahead with the proposal to improve the manufacturing technique.

10. Comment

As the management accountant states, and the analysis (W.N.1) presents, the overall variance for the KONI is nil. The cumulative adverse variances exactly offset the favourable variances i.e. sales price variance and circuit designer's efficiency variance. However, this traditional analysis does not clearly show the efficiency with which the KONI operated during the quarter, as it is difficult to say whether some of the variances arose from the use of incorrect standards, or whether they were due to efficient or inefficient application of those standards.

In order to determine this, a revised ex post plan should be required, setting out the standards that, with hindsight, should have been in operation during the quarter. These revised ex post standards are presented in W.N.2.

As seen from W.N.3, *on the cost side*, the circuit designer's rate variance has changed from adverse to favourable, and the price variance for circuit X, while remaining adverse, is significantly reduced in comparison to that calculated under the traditional analysis (W.N.1); *on the sales side*, sales price variance, which was particularly large and favourable in the traditional analysis (W.N.1), is changed into an adverse variance in the revised approach, reflecting the fact that the KONI failed to sell at prices that were actually available in the market.

Further, variances arose from changes in factors external to the business (W.N .4), which might not have been known or acknowledged by standard-setters at the time of planning are beyond the control of the operational managers. The distinction between variances is necessary to gain a realistic measure of operational efficiency.

W.N.1

KONY India Ltd.

Quarter-1

Operating Statement

Particulars	Favourable RM	Adverse RM	RM
Budgeted Contribution			26,000
Sales Price Variance [(RM 79 - RM 50) × 2,000 units]	58,000	---	NIL
Circuit X Price Variance [(RM 2.50 – RM 4.50) × 21,600 units]		43,200	
Circuit X Usage Variance [(20,000 units - 21,600 units) × RM 2.50]		4,000	
Circuit Designer's Rate Variance [(RM 2 - RM 3) × 11,600 hrs.]		11,600	
Circuit Designer's Efficiency Variance [(12,000 hrs. - 11,600 hrs.) × RM 2.00]	800		
Actual Contribution			

W.N.2

Statement Showing Original Standards, Revised Standards, and Actual Results for Quarter 1

	Original Standards (ex-ante)		Revised Standards (ex-post)		Actual	
	Units	RM	Units	RM	Units	RM
Sales	2,000 units × RM 50.00	1,00,000	2,000 units × RM 82.50	1,65,000	2,000 units × RM 79.00	1,58,000
Circuit X	20,000 units × RM 2.50	50,000	20,000 units × RM 4.25	85,000	21,600 units × RM 4.50	97,200
Circuit Designer	12,000 hrs. × RM 2.00	24,000	12,000 hrs. × RM 3.125	37,500	11,600 hrs. × RM 3.00	34,800

W.N.3**Statement Showing Operational Variances**

Particulars	(₹)	(₹)
<i>Operational Variances</i>		
Sales Price [(RM 79.00 - RM 82.50) × 2,000 units]	7,000 (A)	16,500 (A)
Circuit X Price [(RM 4.25 - RM 4.50) × 21,600 units]	5,400 (A)	
Circuit X Usage [(20,000 units - 21,600 units) × RM 4.25]	6,800 (A)	
Circuit Designer Rate [(RM 3.125 - RM 3.00) × 11,600 hrs.]	1,450 (F)	
Circuit Designer Efficiency [(12,000 hrs. - 11,600 hrs.) × RM 3.125]	1,250 (F)	

W.N.4**Statement Showing Planning Variances**

Particulars	(₹)	(₹)
<i>Planning Variance</i>		
Sales Price [(RM 82.50 - RM 50.00) × 2,000 units]	65,000 (F)	16,500 (F)
Circuit X Price [(RM 2.50 - RM 4.25) × 20,000 units]	35,000 (A)	
Circuit Designer Rate [(RM 2.00 - RM 3.125) × 12,000 hrs.]	13,500 (A)	

PAPER 7: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SECTION – A: STATUTORY UPDATE

The direct tax laws, as amended by the Finance Act, 2019, the Finance (No.2) Act, 2019 and Taxation Laws (Amendment) Act, 2019, including significant notifications and circulars issued upto 31st October, 2019 are applicable for May, 2020 examination. The relevant assessment year for May, 2020 examination is A.Y.2020-21. The amendments made by the Taxation Laws (Amendment) Act, 2019 and significant notifications/circulars issued upto 31st October, 2019, relevant for May, 2020 examination but not covered in the October, 2019 edition of the Study Material, are given hereunder:

PART – I : DIRECT TAX LAWS

Chapter 12: Assessment of Various Entities

The October, 2019 edition of the Study Material incorporates the amendments made by the Taxation Laws (Amendment) Ordinance, 2019, promulgated by the President of India on 20.9.2019. The same has been subsequently approved by the Cabinet, consequent to which, the Taxation Laws (Amendment) Bill, 2019, with certain further changes, was introduced in the Parliament. The same has been passed by both Houses of the Parliament and has received the assent of the President of India. This Act shall be deemed to have come into force on 20.9.2019.

On account of the subsequent amendments brought in through the Taxation Laws (Amendment) Bill, 2019 introduced in the Parliament, **students are advised to ignore Annexures 1, 2 and 3 of Chapter 12 in the printed copy of Module 2 of the October 2019 edition and instead, read the Annexures given hereunder:**

Annexure 1

Insertion of new sections 115BAB and 115BAA providing for concessional rate of tax in respect of certain domestic companies

New sections 115BAB and 115BAA have been inserted by the Taxation Laws (Amendment) Act, 2019, providing for concessional rates of tax and exemption from minimum alternate tax (MAT) in respect of certain domestic companies with effect from A.Y.2020-21. The provisions of these two new sections are tabulated hereunder -

(1)	(2)	(3)	(4)
	Particulars	Section 115BAB	Section 115BAA
(1)	Applicability	Domestic manufacturing company	Any domestic company
(2)	Rate of tax	15%	22%
(3)	Rate of surcharge	10%	10%

(4)	Effective rate of tax (including surcharge & HEC)	17.16% [Tax@15% (+) Surcharge@10% (+) HEC@4%]	25.168% [Tax@22% (+) Surcharge@10% (+) HEC@4%]
(5)	Applicability of MAT	Not applicable	Not applicable
(6)	Manner of computation of tax liability		
	Particulars	Section 115BAB	Section 115BAA
	Income on which concessional rate of tax is applicable	The rate of tax (i.e., 17.16%) is notwithstanding anything contained in the Income-tax Act, 1961 but subject to the provisions of Chapter XII, other than sections 115BA and 115BAA. [Read with point no.11 below, wherein the rate of 34.32% (i.e., Tax@30% + surcharge@10% + HEC@4%) would be applicable in specified circumstance]	The rate of tax (i.e., 25.168%) is notwithstanding anything contained in the Income-tax Act, 1961, but subject to the provisions of Chapter XII, other than section 115BA and 115BAB.
	Rate of tax on income covered under Chapter XII [for example, long-term capital gains chargeable to tax u/s 112 and 112A, short-term capital gains chargeable to tax u/s 111A]	Such income would be subject to tax at the rates mentioned in the said sections in Chapter XII. Surcharge@10% would be levied on tax computed on such income. HEC@4% would be levied on the income-tax <i>plus</i> surcharge.	Such income would be subject to tax at the rates mentioned in the said sections in Chapter XII. Surcharge@10% is leviable on tax computed on such income. HEC@4% would be levied on the income-tax <i>plus</i> surcharge.
	Rate of tax on other income in respect of which no specific rate of tax is provided in Chapter XII	The applicable tax rate is 25.168% (i.e., tax@22%, <i>plus</i> surcharge @10% <i>plus</i> HEC@4%), if such income has neither been derived from nor is incidental to manufacturing or production of an article or thing (For example, income from house property and income from other sources).	The applicable tax rate is 25.168% (i.e., tax@22% <i>plus</i> surcharge@10% <i>plus</i> HEC@4%). There is, however, no restriction regarding claim of any deduction or allowance permissible under the relevant provisions of the

	In respect of such income, no deduction or allowance in respect of any expenditure or allowance shall be allowed in computing such income.	Act.	
Rate of tax on STCG from transfer of a capital asset on which no depreciation is allowable under the Act	The applicable rate of tax is 25.168% (i.e., tax@22%, plus surcharge@10% plus HEC@4%) . There is, however, no restriction regarding claiming of deduction or allowance in this regard.	The applicable rate of tax is 25.168% i.e., tax @22%, plus surcharge @10% plus cess@4% . There is no restriction regarding claiming of deduction or allowance in this regard.	
(7) Conditions to be fulfilled for availing concessional rate of tax and exemption from MAT			
	Particulars	Section 115BAB	
		Section 115BAA	
Conditions to be fulfilled for availing concessional rate of tax and exemption from MAT	(i)	The company should be set-up and registered on or after 1.10.2019 .	No time limit specified. Both existing companies and new companies can avail benefit.
	(ii)	It should commence manufacturing or production of an article or thing on or before 31.3.2023 .	Need not be a manufacturing or a production company
	(iii)	It should not be formed by splitting up or the reconstruction of a business already in existence (except in case of a company, business of which is formed as a result of the re-establishment, reconstruction or revival by the person of the business of any undertaking referred to in section 33B in the circumstances and within the period specified therein)	No similar condition has been prescribed

(iv)	It does not use any machinery or plant previously used for any purpose [Refer Note at the end]	No similar condition has been prescribed
(v)	It does not use any building previously used as a hotel or a convention centre [meanings assigned in section 80-ID(6)] in respect of which deduction u/s 80-ID has been claimed and allowed.	No similar condition has been prescribed
(vi)	<p>It should not be engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.</p> <p>Note – <i>Business of manufacture or production of any article or thing does not include business of –</i></p> <p>(1) <i>Development of computer software in any form or in any media</i></p> <p>(2) <i>Mining</i></p> <p>(3) <i>Conversion of marble blocks or similar items into slabs</i></p> <p>(4) <i>Bottling of gas into cylinder</i></p> <p>(5) <i>Printing of books or production of cinematograph films</i></p> <p>(6) <i>Any other business</i></p>	No similar condition has been prescribed

		<p>as may be notified by the Central Govt. in this behalf.</p> <p>Note - If difficulty arises regarding fulfilment of conditions listed in (iv) to (vi) above, the CBDT may, with the approval of the Central Government, issue guidelines for the purpose of removing difficulty and to promote manufacturing or production of article or thing using new plant and machinery. Every guideline issued by the CBDT has to be laid before each House of Parliament, and shall be binding on the person, and the income-tax authorities subordinate to it.</p>										
(8)	<p>Common conditions for both sections for availing the concessional rate of tax and exemption from MAT</p>	<p>In case of a company opting for either section 115BAA or 115BAB, the total income should be computed -</p> <p>(i) without providing for deduction under any of the following provisions:</p> <table border="1"> <thead> <tr> <th>Section</th> <th>Provision</th> </tr> </thead> <tbody> <tr> <td>10AA</td> <td>Exemption of profits and gains derived from export of articles or things or from services by an assessee, being an entrepreneur from his Unit in SEZ.</td> </tr> <tr> <td>32(1)(iia)</td> <td>Additional depreciation @20% or 35%, as the case may be, of actual cost of new plant and machinery acquired and installed by manufacturing undertakings.</td> </tr> <tr> <td>32AD</td> <td>Deduction@15% of actual cost of new plant and machinery acquired and installed by an assessee in a manufacturing undertaking located in the notified backward areas of Andhra Pradesh, Telengana, Bihar and West Bengal.</td> </tr> <tr> <td>33AB</td> <td>Deduction@40% of profits and gains of business of growing and manufacturing tea, coffee or rubber in India, to the extent deposited with</td> </tr> </tbody> </table>	Section	Provision	10AA	Exemption of profits and gains derived from export of articles or things or from services by an assessee, being an entrepreneur from his Unit in SEZ.	32(1)(iia)	Additional depreciation @20% or 35%, as the case may be, of actual cost of new plant and machinery acquired and installed by manufacturing undertakings.	32AD	Deduction@15% of actual cost of new plant and machinery acquired and installed by an assessee in a manufacturing undertaking located in the notified backward areas of Andhra Pradesh, Telengana, Bihar and West Bengal.	33AB	Deduction@40% of profits and gains of business of growing and manufacturing tea, coffee or rubber in India, to the extent deposited with
Section	Provision											
10AA	Exemption of profits and gains derived from export of articles or things or from services by an assessee, being an entrepreneur from his Unit in SEZ.											
32(1)(iia)	Additional depreciation @20% or 35%, as the case may be, of actual cost of new plant and machinery acquired and installed by manufacturing undertakings.											
32AD	Deduction@15% of actual cost of new plant and machinery acquired and installed by an assessee in a manufacturing undertaking located in the notified backward areas of Andhra Pradesh, Telengana, Bihar and West Bengal.											
33AB	Deduction@40% of profits and gains of business of growing and manufacturing tea, coffee or rubber in India, to the extent deposited with											

	NABARD in accordance with scheme approved by the Tea/Coffee/ Rubber Board.
33ABA	Deduction@20% of the profits of a business of prospecting for, or extraction or production of, petroleum or natural gas or both in India, to the extent deposited with SBI in an approved scheme or deposited in Site Restoration Account.
35(1)(ii)/(iia)/(iii)	Deduction/weighted deduction for payment to any research association, company, university etc. for undertaking scientific research or social science or statistical research.
35(2AA)	Weighted deduction@150% of payment to a National Laboratory or University or IIT or approved specified person for scientific research
35(2AB)	Weighted deduction@150% of in-house scientific research expenditure incurred by a company engaged in the business of bio-technology or in the business of manufacture or production of an article or thing.
35AD	Investment-linked tax deduction for specified businesses.
35CCC	Weighted deduction@150% of expenditure incurred on notified agricultural extension project
35CCD	Weighted deduction@150% of expenditure incurred by a company on notified skill development project.
80-IA to 80RRB	Deductions from gross total income under Chapter VI-A under the heading "C- Deductions in respect of certain incomes" other than the provisions of section 80JJAA.

- (ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so u/s 72A, where such loss or depreciation is attributable to any of the deductions listed in (i) above [Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss shall be allowed for any subsequent year]
- (iii) by claiming depreciation u/s 32 determined in the prescribed manner. However, additional depreciation u/s 32(1)(iia) cannot be claimed.

<p>Note – <u>Additional points relevant in the context of section 115BAA:</u></p> <p>(1) In case of a company opting for section 115BAA, total income should be computed without set-off of any loss carried forward or depreciation from any earlier assessment year, where such loss or depreciation is attributable to any of the deductions listed in (i) above [Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year]</p> <p>(2) In the case of a person having a Unit in the IFSC, referred to in section 80LA(1A), which has exercised option for section 115BAA, deduction u/s 80LA would be allowed subject to fulfilment of the conditions specified in that section.</p> <p>(3) Where there is a depreciation allowance in respect of a block of asset which has not been given full effect to prior to A.Y.2020-21, corresponding adjustment shall be made to the WDV of such block of assets as on 1.4.2019 in the prescribed manner, if option for section 115BAA is exercised for P.Y.2019-20 relevant to A.Y.2020-21.[For example, in case of an asset acquired and put to use for less than 180 days in P.Y. 2018-19, the effect of balance additional depreciation to be allowed in P.Y. 2019-20 will be made in the WDV of the block as on 1.4.2019, if option for section 115BAA is exercised for P.Y.2019-20 relevant to A.Y.2020-21]</p> <p>(4) Since there is no time line within which option under section 115BAA can be exercised, a domestic company having brought forward losses and depreciation on account of deductions listed in (i) above may, if it so desires, postpone exercise the option under section 115BAA to a later assessment year, after set off of the losses and depreciation so accumulated.</p>			
	Particulars	Section 115BAB	Section 115BAA
(9)	Failure to satisfy conditions	On failure to satisfy the conditions mentioned in point no. (7) and (8) above, the option exercised would be invalid in respect of the assessment year relevant to that previous year and subsequent assessment years; Consequently, the other provisions of the Act would apply to the person as if the option had not been exercised for the assessment year relevant to that previous year and subsequent	On failure to satisfy the conditions mentioned in point no. (8) above, the option exercised would be invalid in respect of the assessment year relevant to that previous year and subsequent assessment years; Consequently, the other provisions of the Act

		assessment years. Note – Where option exercised under section 115BAB is rendered invalid due to violation of conditions stipulated in point no.7 [(iv) to (vi)] above, such person may exercise option under section 115BAA.	would apply to the person as if the option had not been exercised for the assessment year relevant to that previous year and subsequent assessment years.
	Particulars	Section 115BAB	Section 115BAA
(10)	Availability of set-off of MAT credit brought forward from earlier years	Since it is a new company, there would be no brought forward MAT credit	Brought forward MAT credit cannot be set-off against income u/s 115BAA. Note - If a company has b/f MAT credit, it can first exhaust the MAT credit, and thereafter opt for section 115BAA in a subsequent previous year.
	Particulars	Section 115BAB	Section 115BAA
(11)	Adjustments for transactions with persons having close connection	If the Assessing Officer opines that the course of business between the company and any other person having close connection therewith is so arranged that the business transacted between them produces more than the ordinary profits to the company, he is empowered to take into account the amount of profits as may be reasonably deemed to have been derived therefrom, while computing profits and gains of such company. In case the arrangement referred to above involves a specified domestic transaction referred to in section 92BA, then, the amount of profits from such transaction would be determined by considering the arm's length price (ALP). The amount, being profits in excess of the amount of the profits	No such requirement to make any adjustment

		<p>determined by the Assessing Officer, shall be deemed to be the income of the person.</p> <p>The income-tax on the income so deemed shall be subject to tax@34.32%(i.e., tax@30% + surcharge @10% +HEC@4%).</p> <p><i>Note – The scope of “specified domestic transaction” referred to in section 92BA has been expanded to include within its ambit, any business transacted between such persons with close connection, where one such person is a company claiming benefit under section 115BAB.</i></p>	
	Particulars	Section 115BAB	Section 115BAA
(12)	Exercise of option by the company within the prescribed time	<p>The beneficial provisions of this section would apply only if option is exercised in the prescribed manner on or before the due date u/s 139(1) for furnishing the first of the returns of income for any previous year relevant to A.Y.2020-21 or any subsequent assessment year.</p> <p>Such option, once exercised, would apply to subsequent assessment years.</p> <p>Further, once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.</p> <p><i>Notes – (1) The option has to be exercised at the time of furnishing the first of the returns of income for any previous year. If a person fails to so exercise such option, it cannot be exercised thereafter for any subsequent previous year.</i></p>	<p>The beneficial provisions of this section would apply if option is exercised in the prescribed manner on or before the due date u/s 139(1) for furnishing the return of income for any previous year relevant to A.Y.2020-21 or any subsequent assessment year.</p> <p>Such option, once exercised, would apply to subsequent assessment years.</p> <p>Further, once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.</p>

	<p>(2) In case of amalgamation, the option exercised u/s 115BAB shall remain valid in the case of the amalgamated company only and if the conditions mentioned in point no.(7) and (8) are continued to be satisfied by such company.</p>	<p>Note – The option can be exercised even in a later year, but once exercised, cannot be withdrawn subsequently. Further, where the person exercises option under section 115BAA, the option under section 115BA may be withdrawn.</p>
--	---	--

Note - For the purpose of point no.7(iv) in column (3) of the above table in relation to a company exercising option under section 115BAB, any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled, namely:—

- (a) such machinery or plant was not, at any time previous to the date of the installation, used in India;
- (b) such machinery or plant is imported into India from any country outside India;
- (c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of the Income-tax Act, 1961 in computing the total income of any person for any period prior to the date of installation of the machinery or plant by the person.

Further, where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used by the company, then, the condition specified that the company does not use any machinery or plant previously used for any purpose would be deemed to have been complied with.

Note - Students are advised to **ignore the last paragraph in page no.1.38 and the first paragraph in page no. 1.39** given in italics in Chapter 1: Basic Concepts of the printed copy of Module 1 of the October, 2019 Edition of the Study Material, which incorporates the provision relating to surcharge as inserted by the Taxation Laws (Amendment) Ordinance, 2019 promulgated on 20.9.2019. Consequent to the amendment effected by the Taxation Laws (Amendment) Act, 2019 as assented by the President of India on 11.12.2019, **surcharge of 10% would be leviable on the income-tax computed on the total income of a company opting for the provisions of section 115BAA or 115BAB.**

Annexure 2**Rate of Surcharge applicable to Individuals/HUF/AOPs/BOIs/Artificial Juridical Person for A.Y.2020-21**

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including income under section 111A and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 30 lakhs; • LTCG u/s 112A ₹ 25 lakhs; and • Other income ₹ 40 lakhs 	Surcharge would be levied @10% on income-tax computed on total income of ₹ 95 lakhs.
(ii)	Where total income (including income under section 111A and 112A) exceeds ₹ 1 crore but does not exceed ₹ 2 crore	15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 50 lakhs 	Surcharge would be levied @15% on income-tax computed on total income of ₹ 1.75 crores.
(iii)	Where total income (excluding income under section 111A and 112A) exceeds ₹ 2 crore but does not exceed ₹ 5 crore The rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A	25% Not exceeding 15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 54 lakh; • LTCG u/s 112A ₹ 55 lakh; and • Other income ₹ 3 crores 	Surcharge would be levied @15% on income-tax on: <ul style="list-style-type: none"> • STCG of ₹ 54 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 112A. Surcharge @25% would be leviable on income-tax computed on other income of

				₹ 3 crores included in total income
(iv)	Where total income (excluding income under section 111A and 112A) exceeds ₹ 5 crore Rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A	37% Not exceeding 15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 50 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 6 crore 	<p>Surcharge@15% would be levied on income-tax on:</p> <ul style="list-style-type: none"> • STCG of ₹ 50 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 65 lakhs chargeable to tax u/s 112A. <p>Surcharge@37% would be leviable on the income-tax computed on other income of ₹ 6 crores included in total income.</p>
(v)	Where total income (including income under section 111A and 112A) exceeds ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 55 lakhs; and • Other income ₹ 1.10 crore 	Surcharge would be levied@15% on income-tax computed on total income of ₹ 2.25 crore.

Note – Students are advised to **ignore** the table containing rates of surcharge for individuals/HUF/AOP/BOI and Artificial Juridical Persons given in **pages 1.35-1.36 of Chapter 1 in Module 1** of the printed copy of the October, 2019 Edition of the Study Material and instead, read the contents of the above table.

Annexure 3

Rate of Surcharge applicable on tax on total income of Individuals/AOPs/BOIs/Artificial Juridical Persons (having any income under section 115AD) for payment of advance tax for A.Y.2020-21

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income > ₹ 50 lakhs but is ≤ ₹ 1 crore	10%	<ul style="list-style-type: none"> Capital gains on securities referred to in section 115AD(1)(b) ₹ 60 lakhs; and Other income ₹ 35 lakhs; 	Surcharge would be levied@10% on income-tax computed on total income of ₹ 95 lakhs.
(ii)	Where total income > ₹ 1 crore but is ≤ ₹ 2 crore	15%	<ul style="list-style-type: none"> Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.20 crore; and Other income ₹ 60 lakhs; 	Surcharge would be levied@15% on income-tax computed on total income of ₹ 1.80 crore.
(iii)	Where total income [excluding STCG/LTCG on securities referred to in section 115AD(1)(b)] > ₹ 2 crore ≤ ₹ 5 crore Rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 115AD(1)(b)	25% Not exceeding 15%	<ul style="list-style-type: none"> Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.20 crore; and Other income ₹ 3 crores; 	Surcharge would be levied: @15% on income-tax leviable on capital gains of ₹ 1.20 crore referred to in section 115AD; and @25% on income-tax computed on other income of ₹ 3 crores included in total income.

(iv)	Where total income [excluding STCG/LTCG on securities referred to in section 115AD(1)(b)] > ₹ 5 crore	37%	<ul style="list-style-type: none"> Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.70 crore; and Other income ₹ 6 crore 	Surcharge would be levied @15% on income-tax leviable on capital gains of ₹ 1.70 crore referred to in 115AD; and @37% on income-tax computed on other income of ₹ 6 crore included in total income
	Rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 115AD(1)(b)	Not exceeding 15%		
(v)	Where total income [including STCG/LTCG on securities referred to in 115AD(1)(b)] > ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	<ul style="list-style-type: none"> Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.10 crore; and Other income ₹ 1.60 crore; 	Surcharge would be levied @15% on tax on total income of ₹ 2.70 crore.

Chapter 15: Deduction, Collection and Recovery of Tax

Clarification as to the applicability of section 194N and manner of computing the threshold limit of ₹ 1 crore thereunder, where cash withdrawals have taken place prior to 1.9.2019 [Press Release dated 30.8.2019]

The Finance (No. 2) Act, 2019 has inserted section 194N, with effect from 1.9.2019 to require every person, being a banking company, a co-operative society engaged in carrying on the business of banking or a post office who is responsible for paying, in cash, any sum or aggregate of sums exceeding ₹ 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, to deduct tax at source @2% of sum exceeding ₹ 1 crore. The deduction is to be made at the time of payment of such sum.

The CBDT has, vide Press Release dated 30.8.2019, clarified that section 194N is to come into effect from 1st September, 2019. Hence, any cash withdrawal prior to 1st September, 2019 will not be subjected to the TDS under section 194N. However, since the threshold of ₹ 1 crore is with respect to the previous year 2019-20, calculation of amount of cash

withdrawal for triggering deduction under section 194N shall be counted from 1st April, 2019. Hence, if a person has already withdrawn ₹ 1 crore or more in cash upto 31st August, 2019 from one or more accounts maintained with a banking company or a cooperative bank or a post office, TDS@2% shall apply on all subsequent cash withdrawals.

No tax is required to be deducted at source under section 194N on cash withdrawals by persons or class of persons as notified by the Central Government [Notification No. 80/2019, dated 15.10.2019]

The proviso to section 194N provides that no tax is, however, required to be deducted at source on payments made to *inter alia* such other person or class of persons as notified by the Central Government.

Accordingly, the Central Government has, vide this notification, after consultation with the Reserve Bank of India (RBI), specified -

- (a) the authorised dealer and its franchise agent and sub-agent; and
- (b) Full-Fledged Money Changer (FFMC) licensed by the RBI and its franchise agent;

Such persons should maintain a separate bank account from which withdrawal is made only for the purposes of -

- (i) purchase of foreign currency from foreign tourists or non-residents visiting India or from resident Indians on their return to India, in cash as per the directions or guidelines issued by RBI; or
- (ii) disbursement of inward remittances to the recipient beneficiaries in India in cash under Money Transfer Service Scheme (MTSS) of the RBI;

The exemption from the requirement to deduct tax u/s 194N would be available only if a certificate is furnished by the authorised dealers and their franchise agent and sub-agent, and the Full-Fledged Money Changers (FFMC) and their franchise agent to the bank that withdrawal is only for the purposes specified above and the directions or guidelines issued by the RBI have been adhered to.

“Authorised dealer” means any person who is authorised by the RBI as an authorised dealer to deal in foreign exchange [Section 10(1) of the Foreign Exchange Management Act, 1999].

PART - II: INTERNATIONAL TAXATION

Chapter 3: Transfer Pricing & Other Anti-avoidance Measures

Time limit for repatriation of excess money or part thereof and manner of computation of interest on excess money not repatriated prescribed [Notification No. 76/2019, dated 30.9.2019]

Section 92CE(2) requires repatriation, within the prescribed time, of the excess money or part thereof, as the case may be, which is available with the associated enterprise, in a case

where, as a result of primary adjustment to the transfer price, there is an increase in the total income or reduction in the loss, as the case may be, of the assessee. If the excess money or part thereof is not repatriated to India within the prescribed time, it shall be deemed to be an advance made by the assessee to such associated enterprise and the interest on such advance, shall be computed in the prescribed manner.

The CBDT has, *vide this notification*, amended Rule 10CB(1) which prescribes the time limit for repatriation of excess money or part thereof i.e., on or before 90 days from the specified date. The 90 days period is to be reckoned from the date specified in column (2) in the cases mentioned in column (1) of the table below. Further, the date from which interest is chargeable on the excess money or part thereof which is not repatriated in the cases mentioned in column (1) is given in column (3) in the table below:

Case	Time limit for repatriation of excess money or part thereof: <u>Within 90 days from</u>	Date from which interest is chargeable on the non-repatriated excess money or part thereof within the specified time limit
(1)	(2)	(3)
(i) Where primary adjustments to transfer price have been made suo-motu by the assessee in his return of income	the due date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)
(ii) If primary adjustments to transfer price as determined in the order of the Assessing Officer or the appellate authority has been accepted by the assessee	the date of the said order	the date of the said order
(iii) Where primary adjustment to transfer price is determined by an advance pricing agreement (APA) entered into by the assessee u/s 92CC in respect of a previous year -		
<ul style="list-style-type: none"> • If the APA has been entered into on or before the due date of filing of return for the relevant P.Y. 	the date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)
<ul style="list-style-type: none"> • If the APA has been entered into on or after the due date of filing of return for the relevant P.Y. 	the end of the month in which the APA has been entered into	the end of the month in which the APA has been entered into

(iv) Where option has been exercised by the assessee as per the safe harbour rules u/s 92CB	the due date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)
(v) Where the primary adjustment to the transfer price is determined by a resolution arrived at under Mutual Agreement Procedure under a DTAA has been entered into u/s 90 or 90A	the date of giving effect by the A.O. under Rule 44H to such resolution	the date of giving effect by the A.O. under Rule 44H to such resolution

Rule 10CB(2) prescribes the rate at which the per annum interest income shall be computed in case of failure to repatriate the excess money or part thereof within the above time limit. The interest would be computed *inter alia* at six month London Interbank Offered Rate (LIBOR) as on 30th September of the relevant previous year + 3.00%, where the international transaction is denominated in foreign currency.

Rate of exchange for the calculation of the value in rupees of the international transaction denominated in foreign currency shall be the telegraphic transfer buying rate of such currency on the last day of the previous year in which such international transaction was undertaken.

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.

1. A business trust, registered under SEBI (Real Estate Investment Trusts) Regulations, 2014, gives particulars of its income for the P.Y.2019-20:
 - (i) Interest income from Z Ltd. – ₹ 10 lakh;
 - (ii) Dividend income from Z Ltd. – ₹ 5 lakh;
 - (iii) Short-term capital gains on sale of listed shares (STT paid both at the time of purchase and sale) of Indian companies – ₹ 4 lakh;
 - (iv) Short-term capital gains on sale of developmental properties – ₹ 8 lakh
 - (v) Interest received from investments in unlisted debentures of real estate companies – ₹ 1 lakh;
 - (vi) Rental income from directly owned real estate assets – ₹ 20 lakh

Z Ltd. is an Indian company in which the business trust holds 100% of the shareholding.

Assume that the business trust has distributed the entire ₹ 48 lakh to the unit holders in the P.Y. 2019-20. Mr. X is a resident holder holding 100 units and Mr. Y is a non-resident holder holding 500 units. The total number of units subscribed to by all unit holders is 5,000.

- (i) In respect of the component of interest income from Z Ltd. distributed by the business trust to unit-holders X and Y -
- No tax is deductible by the business trust, since such income is not taxable in the hands of unit holders.
 - Tax is deductible@5% on ₹ 20,000 distributed to Mr. X and @5.2% on ₹ 1 lakh distributed to Mr. Y
 - Tax is deductible@10% on ₹ 20,000 distributed to Mr. X and @5.2% on ₹ 1 lakh distributed to Mr. Y
 - Tax is deductible@5% on ₹ 20,000 distributed to Mr. X and 10.4% on ₹ 1 lakh distributed to Mr. Y
- (ii) In respect of short-term capital gains of ₹ 4 lakh on sale of listed shares of Indian companies and ₹ 8 lakh on sale of developmental properties -
- The business trust is liable to pay tax@15.6% and 31.2%, respectively
 - The business trust is liable to pay tax@42.744%.
 - The business trust enjoys pass through status and hence, it need not pay any tax on such short-term capital gains; such income is subject to tax in the hands of unit-holders.
 - The business trust is liable to pay tax@15.6% and 42.744%, respectively
- (iii) The dividend component of income from Z Ltd., distributed to unit-holders -
- would be subject to distribution tax in the hands of Z Ltd., hence exempt in the hands of the business trust and the unit holders.
 - is exempt in the hands of the business trust, and consequently, would be subject to tax in the hands of the unit holders
 - would be exempt from distribution tax in the hands of Z Ltd., and hence taxable in the hands of the business trust.
 - would be exempt from distribution tax in the hands of Z Ltd., and not taxable either in the hands of the business trust or in the hands of the unit holders.
- (iv) Interest received by the business trust from investments in unlisted debentures of real estate companies and distributed to unit holders would be -
- Subject to tax in the hands of the unit holders
 - Subject to tax in the hands of the business trust@31.2%
 - Subject to tax in the hands of the business trust @42.744%
 - Subject to tax in the hands of the business trust at the average rate of tax

- (v) The rental component of income from real estate assets received by the business trust and distributed to its unit holders X and Y would be -
- Subject to tax in the hands of the business trust@42.744%
 - Subject to tax in the hands of the business trust@31.2%
 - Subject to tax in the hands of the unit-holder X@10% (on ₹ 40,000) and Y@the rates in force (on ₹ 2,00,000); such tax has to be deducted at source by the business trust.
 - Subject to tax in the hands of the unit-holders X and Y; business trust has to deduct tax@10% on ₹ 40,000 distributed to X and at the rates in force on ₹ 2,00,000 distributed to Y.
2. M/s. MNO is a firm liable to tax@30%. The following are the particulars furnished by the firm for A.Y.2020-21:

	Particulars of total income	₹
(1)	As per the return of income furnished u/s 139(1)	40,00,000
(2)	Determined under section 143(1)(a)	50,00,000
(3)	Assessed under section 143(3)	65,00,000
(4)	Reassessed under section 147	85,00,000

Mr. N, a resident individual of the age of 58 years and a partner of the above firm, has not furnished his return of income for A.Y.2020-21. However, his total income assessed in respect of such year under section 144 is ₹ 15 lakh.

- (i) M/s. MNO is deemed to have under-reported its income since:
- Income determined under section 143(1)(a) exceeds income declared as per return of income furnished u/s 139(1)
 - Income assessed under section 143(3) exceeds income determined under section 143(1)(a)
 - Income reassessed under section 147 exceeds income assessed under section 143(3)

The correct answer is -

- (1) and (2) above
- (1) and (3) above
- (2) and (3) above
- (1), (2) and (3) above

- (ii) Mr. N is deemed to have under-reported his income since:
- (1) He is a partner of a firm which has under-reported its income
 - (2) He has not filed his return of income
 - (3) His assessed income exceeds ₹ 2,50,000
- The correct answer is -
- (a) (1) and (2) above
 - (b) (1) and (3) above
 - (c) (2) and (3) above
 - (d) (1), (2) and (3) above
- (iii) Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies under section 270A(6), penalty leviable on M/s. MNO under section 270A at the time of assessment would be:
- (a) ₹ 3,12,000
 - (b) ₹ 1,56,000
 - (c) ₹ 4,68,000
 - (d) ₹ 2,34,000
- (iv) Assuming that the underreporting of income is on account of misreporting and all the additions or disallowances made in reassessment qualifies under section 270A(6), penalty leviable on M/s. MNO under section 270A at the time of reassessment would be:
- (a) ₹ 3,12,000
 - (b) ₹ 2,34,000
 - (c) ₹ 12,48,000
 - (d) ₹ 6,24,000
- (v) Assuming that the under-reporting of income is not on account of misreporting, the under-reported income of Mr. N and penalty leviable on Mr. N under section 270A would be:
- (a) Under-reported income ₹ 15,00,000; penalty u/s 270A ₹ 2,34,000
 - (b) Under-reported income ₹ 12,50,000; penalty u/s 270A ₹ 97,500
 - (c) Under-reported income ₹ 15,00,000; penalty u/s 270A ₹ 1,36,500
 - (d) Under-reported income ₹ 12,50,000; penalty u/s 270A ₹ 1,36,500

3. Mr. Sanjay, a salaried individual, pays brokerage of ₹ 40 lakhs on 5.1.2020 to buy a residential house. His father, Mr. Hari, a retired pensioner, makes contract payments of ₹ 15 lakhs, ₹ 25 lakhs and ₹ 12 lakhs on 28.9.2019, 3.11.2019 and 15.2.2020 for reconstruction of residential house. With respect to the above payments made by Mr. Sanjay and Mr. Hari, which of the following statements is correct?
- (a) Neither Mr. Sanjay nor Mr. Hari is required to deduct tax at source, since they are not subject to tax audit, on account of being a salaried individual and pensioner, respectively.
 - (b) Both Mr. Sanjay and Mr. Hari are required to deduct tax at source under the provisions of the Income-tax Act, even though they are not subject to tax audit.
 - (c) Mr. Sanjay is required to deduct tax at source but Mr. Hari is not required to deduct tax at source.
 - (d) Mr. Hari is required to deduct tax at source but Mr. Sanjay is not required to deduct tax at source.
4. Mr. Rajesh and Mr. Brijesh, resident individuals, received ₹ 12 lakhs each on 31.3.2020 on maturity of life insurance policy taken on 31.3.2012 and 1.4.2012, respectively, the sum assured of which is ₹ 10 lakhs. They had paid an annual premium of ₹ 1.10 lakhs each. Are provisions of tax deduction at source attracted on maturity proceeds received by Mr. Rajesh and Mr. Brijesh?
- (a) Yes; Tax is deductible at source on maturity proceeds received by both Mr. Rajesh and Mr. Brijesh, since the annual premium is more than ₹ 1,00,000, being 10% of ₹ 10 lakhs.
 - (b) No; Tax is not deductible at source on maturity proceeds received by either Mr. Rajesh or Mr. Brijesh, since the annual premium is less than ₹ 1,20,000, being 10% of ₹ 12 lakhs.
 - (c) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is ₹ 12,000
 - (d) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is ₹ 16,000.
5. A Inc. and B Inc., incorporated in Country A and Country B, respectively, whose place of effective management is also in the said countries, are engaged in the business of operation of ships and aircraft, respectively. The details of receipts etc. during the P.Y.2019-20 are as follows –

Particulars	A Inc.	B Inc.
Amount paid/payable in Mumbai on account of carriage of passengers: Shipped from Mumbai port to port in Country A From Mumbai airport to airport in Country B	₹ 20 lakhs	₹ 15 lakhs
Amount paid/payable in Country A/B on account of carriage of passengers: Shipped from Mumbai port to port in Country A From Mumbai airport to airport in Country B	₹ 5 lakhs	₹ 4 lakhs
Amount received/deemed to be received in India on account of carriage of passengers: Shipped from port in Country A to Mumbai port From airport in Country B to Mumbai airport	₹ 7 lakhs	₹ 8 lakhs
Amount received/deemed to be received in Country A/B on account of carriage of passengers: Shipped from port in Country A to Mumbai port From airport in Country B to Mumbai airport	₹ 22 lakhs	₹ 18 lakhs
Profit (pertaining to Indian operations) computed as per books of account maintained by A Inc. and B Inc., after providing the deductions under the Income-tax Act, 1961	₹ 2.20 lakhs	₹ 1.20 lakhs

The profits and gains of business of A Inc. and B Inc. chargeable to tax in India under the Income-tax Act, 1961 for A.Y.2020-21 is –

- ₹ 2.20 lakhs and ₹ 1.20 lakhs, respectively, provided the books of accounts are audited under section 44AB of the Income-tax Act, 1961
 - ₹ 2.025 lakhs and ₹ 1.15 lakhs, respectively
 - ₹ 2.40 lakhs and ₹ 1.35 lakhs, respectively
 - ₹ 2.70 lakhs and ₹ 3.375 lakhs, respectively
6. Kaveri Ltd. is an Indian Company in which Andes Inc., a Country A company holds 30% shareholding and voting power. During the previous year 2016-17, the Indian company supplied computers to the Country A based company @CAD 2200 per piece. The price of computer supplied to other unrelated parties in Country A is @CAD 2500 per piece. During the course of assessment proceedings relating to A.Y.2017-18, the Assessing Officer carried out primary adjustments and added a sum of ₹ 138 lakhs, being the difference between actual price of computer and arm's length price for 500 pieces and it was duly accepted by the assessee. The Assessing Officer passed the order, in which the primary adjustments were made, on 1.7.2019. On account of this adjustment, the

excess money of ₹ 138 lakhs is available with Andes Inc, Country A. What would be the effect of this transaction while computing the total income of Kaveri Ltd. for the assessment year 2020-21, assuming that –

- (i) Kaveri Ltd. declared an income of ₹ 220 lakhs;
 - (ii) the excess money is still lying with Andes Inc. till today,
 - (iii) Kaveri Ltd. has not opted to pay additional income-tax on such excess money not repatriated; and
 - (iv) the rate of exchange is 1 CAD = ₹ 92 and the six-month LIBOR as on 30.9.2019 is 10%. [CAD stands for Country A Dollars, which is the currency of Country A] –
 - (a) Interest of ₹ 13.80 lakhs would be added to the total income of Kaveri Ltd
 - (b) Interest of ₹ 13.455 lakhs would be added to the total income of Kaveri Ltd.
 - (c) Interest of ₹ 10.35 lakhs would be added to the total income of Kaveri Ltd.
 - (d) Interest of ₹ 8.97 lakhs would be added to the total income of Kaveri Ltd.
7. An investment fund's income for A.Y.2020-21 comprised of the following components: business income ₹ 5 crore and capital loss ₹ 3 crore. All the unit holders of the investment fund have held units in the investment fund for more than 12 months. What would be the tax treatment?
- (a) Business income of ₹ 5 crore is taxable in the hands of the investment fund. The capital loss of ₹ 3 crore has to be carried forward by the investment fund.
 - (b) Business income of ₹ 5 crore is taxable in the hands of the unit-holders. Capital loss of ₹ 3 crore can be carried forward only by the unit holders.
 - (c) Business income of ₹ 5 crore is taxable in the hands of the investment fund. The capital loss of ₹ 3 crore cannot be carried forward by either the investment or the unit holders.
 - (d) Business income of ₹ 5 crore is taxable in the hands of the investment fund. Capital loss of ₹ 3 crore can be carried forward only by the unit holders.
8. During the P.Y.2019-20, Mr. Aakash has ₹ 80 lakhs of short-term capital gains taxable u/s 111A, ₹ 70 lakhs of long-term capital gains taxable u/s 112A and business income of ₹ 90 lakhs. Which of the following statements is correct?
- (a) Surcharge@25% is leviable on income-tax computed on total income of ₹ 2.40 crore, since the total income exceeds ₹ 2 crore.
 - (b) Surcharge@15% is leviable on income-tax computed on total income of ₹ 2.40 crore

- (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore, since such income exceeds ₹ 1 crore but is less than ₹ 2 crore; in respect of business income of ₹ 90 lakhs, surcharge is leviable@25% on income-tax, since the total income exceeds ₹ 2 crore.
- (d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore, since such income exceeds ₹ 1 crore but is less than ₹ 2 crore; in respect of business income of ₹ 90 lakhs, surcharge is leviable@10% on income-tax, since such income exceeds ₹ 50 lakhs but is less than ₹ 1 crore.

DESCRIPTIVE QUESTIONS

9. M/s. Beta & Co., a partnership firm in India, is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified Special Economic Zone (SEZ) in Noida (commenced operations from 01.04.2008) and the other located in a domestic tariff area (DTA). The particulars relating to previous year 2019-20 furnished by the assessee are as follows:

Total Turnover: SEZ unit ₹ 210 lakhs; DTA unit ₹ 90 lakhs

Export Turnover: SEZ unit ₹ 150 lakhs; DTA unit ₹ 50 lakhs

Profit: SEZ unit ₹ 50 lakhs; DTA unit ₹ 40 lakhs.

Amount debited to Statement of Profit and Loss and credited to Special Economic Zone Re-Investment Reserve Account ₹ 20 lakhs.

Considering that the firm has no other income during the year, compute the tax payable by the firm for the A.Y.2020-21 by integrating, analysing and applying the relevant provisions of income-tax law.

10. Gamma (P) Ltd., an Indian company established in the year 2007, reports total income of ₹ 22 lakh for the previous year ended 31st March, 2020. Tax deducted at source by different payers amounted to ₹ 1,68,000 and tax paid in Country A on a doubly taxed income amounted to ₹ 30,000 for which the company is entitled to relief under section 90 as per the double taxation avoidance agreement.

During the year, the company paid advance tax as under:

Date of payment	Advance tax paid (₹)
13-06-2019	45,000
14-09-2019	90,000
13-12-2019	1,00,000
14-03-2020	1,05,000

The company filed its return of income for the A.Y. 2020-21 on 3rd November, 2020.

Compute interest, if any, payable by the company under sections 234A, 234B and 234C and fee payable under section 234F. Assume that transfer pricing provisions are not applicable and that the company has not opted for the provisions of section 115BAA.

Note – Turnover of Gamma (P) Ltd. for P.Y. 2017-18 is ₹ 251 crore.

11. Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2020-21 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2019-20 in respect of these assessees:

- (i) Mr. Prasun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2019 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

- (ii) Mr. Raj purchased 200 units each of equity oriented funds, Fund A and Fund B on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 and units of Fund B were listed on 1.2.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2019 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units as on 31.1.2018 are given hereunder:

Particulars	Fund A	Fund B
	Amount in ₹	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)	800 (on 1.2.2018)
Average Trading Price	700 (on 31.1.2018)	750 (on 1.2.2018)
Lowest Trading Price	650 (on 31.1.2018)	700 (on 1.2.2018)
Net Asset Value on 31.1.2018	800	950

12. Epsilon Limited has two units - one engaged in manufacture of computer hardware and the other involved in developing software. The company has not opted for the provisions of section 115BAA. As a restructuring drive, the company has decided to sell its software unit as a going concern by way of slump sale for ₹ 840 lacs to a new company called Phi Limited, in which it holds 90% equity shares.

The balance sheet of Epsilon limited as on 31st March 2020, being the date on which software unit has been transferred, is given hereunder –

Balance Sheet as on 31.3.2020

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Paid up Share Capital	600	<u>Fixed Assets</u>	
General Reserve	300	Hardware unit	340
Share Premium	100	Software unit	400
Revaluation Reserve	240	<u>Debtors</u>	
<u>Current Liabilities</u>		Hardware unit	280
Hardware unit	80	Software unit	220
Software unit	180	<u>Inventories</u>	
		Hardware unit	190
		Software unit	70
	<u>1500</u>		<u>1500</u>

Additional Information:

- (i) The Software unit is in existence since April, 2015.
 - (ii) Fixed assets of software unit includes land which was purchased at ₹ 80 lakhs in the year 2010 and revalued at ₹ 120 lakhs as on March 31, 2020.
 - (iii) Fixed assets of software unit reflected at ₹ 280 lakhs (₹ 400 lakhs less ₹ 120 lakhs, being the value of land) is written down value of depreciable assets as per books of account. However, the written down value of these assets under section 43(6) of the Income-tax Act, 1961 is ₹ 180 lakhs.
 - (a) Determine the tax liability arising from slump sale.
 - (b) How can the restructuring plan of the company be made more tax-savvy, without changing the amount of sale consideration?
13. Delta Ltd., an Indian company, earned a profit of ₹ 36 lakhs after debit/credit of the following items to its Statement of Profit and Loss for the year ended on 31.3.2020 -
- (i) Items debited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Provision for the loss of subsidiary	92,000
2.	Provision for doubtful debts	1,05,000
3.	Provision for income-tax	2,17,000
4.	Provision for gratuity based on actuarial valuation	3,25,000
5.	Depreciation	2,70,000
6.	Interest to financial institution (unpaid before filing of return)	80,000
7.	Penalty for infraction of law	27,000

(ii) Items credited to Statement of Profit and Loss:

No.	Particulars	₹
1.	Profit from unit established in special economic zone.	12,00,000
2.	Share in income of an AOP as a member	2,25,000
3.	Income from units of UTI	52,000
4.	Long term capital gains	2,50,000

Other Information:

- (i) Depreciation includes ₹ 1,20,000 on account of revaluation of fixed assets.
- (ii) Depreciation as per Income-tax Rules, 1962 is ₹ 3,20,000.
- (iii) Balance of Statement of Profit and Loss shown in Balance Sheet at the asset side as at 31.3.2019 was ₹ 25 lakhs which includes unabsorbed depreciation of ₹ 12 lakhs.
- (iv) The AOP, of which the company is a member, has paid tax at maximum marginal rate.
- (v) Provision for income-tax includes ₹ 70,000 of interest payable on income-tax.

Compute minimum alternate tax under section 115JB of the Income-tax Act, 1961, for A.Y. 2020-21.

14. Alpha Ltd. is engaged in commercial production of mineral oil. It claimed deduction under section 80-IB in respect of profits and gains derived by it from such business, including transport subsidy, interest subsidy and power subsidy received from the Government. The Assessing Officer disallowed the deduction in respect of these three subsidies contending that such subsidies were not “derived” from the business of commercial production of mineral oil but belonged to the category of ancillary profits and hence do not qualify for deduction under section 80-IB. Discuss the correctness of the action of the Assessing Officer.
15. 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.
16. Helpage is a charitable trust set up on 1.4.2010 with the object of providing relief of the poor. Later on, in April, 2012, it changed its object to medical relief. It applied for registration on the basis of its new object, i.e., medical relief, on 1.9.2012 and was granted registration on 1.2.2013.

On 1.4.2019, Helpage got merged with M/s. Medicare (P) Ltd, a pharmaceutical company not entitled for registration under section 12AA. All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. Medicare (P) Ltd. The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger:

(i) Land

Location	Date of purchase	Stamp duty value on 1.4.2019	Value which the land would fetch, if sold in the open market on 1.4.2019	Book Value on 1.4.2019
		₹	₹	₹
Noida	1.9.2010	55 lakhs	58 lakhs	50 lakhs
Gurgaon	1.9.2013	100 lakhs	120 lakhs	110 lakhs

(ii) Shares

Type of shares	Date of purchase	Face value of each share	Purchase price of each share	Price at which each share is quoted on BSE as on 1.4.2019		Open market value as on 1.4.2019 #
				Highest price	Lowest price	
		₹	₹	₹	₹	₹
5000 Quoted equity shares of A Ltd.	1.5.2014	100	110	320	300	
2000 Preference shares of B Ltd.	1.9.2015	100	100	-	-	180

on the basis of report of Merchant Banker

(iii) Liabilities

Book value of liabilities on 1.4.2019 = ₹ 120 lakhs. This includes –

- Corpus fund ₹ 12 Lakhs.
- Provision for taxation ₹ 8 lakhs; and
- Reserves and Surplus ₹ 18 lakhs

17. Lambda Ltd. is engaged in the manufacture of fabrics since 01-04-2012. Its Statement of Profit and Loss for the previous year ended 31st March, 2020 shows a profit of ₹ 750 lakhs after debiting or crediting the following items:
- (a) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 52 Lakhs.
 - (b) Industrial power tariff concession of ₹ 4.80 lakhs, received from Maharashtra State Government was credited to Statement of profit and loss.
 - (c) The company had provided ₹ 18 lakhs being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
 - (d) Dividend received from a US company ₹ 12 Lakhs.
 - (e) Loss ₹ 17 lakhs, due to destruction of a machine worth ₹ 24 lakhs by fire due to short circuit and ₹ 3 lakh received as scrap value. The insurance company did not admit the claim of the company on charge of gross negligence.
 - (f) Provision for gratuity based on actuarial valuation was ₹ 320 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 180 lakhs.
 - (g) The company has purchased 1000 bales of raw cotton at a price of ₹ 20,000 per bale from M/s. Omicron, a firm in which majority of the directors of Lambda Ltd. are partners. The firm's normal selling price of the same material in market is ₹ 18,000 per bale.
 - (h) Advertisement charges ₹ 2.30 lakhs, paid by cheque for advertisement published in the souvenir of a political party registered with the Election Commission of India.
 - (i) Long term capital gain ₹ 3 lakhs on sale of equity shares on which Securities Transaction Tax (STT) was paid at the time of acquisition and sale.

Additional Information:

- (i) Normal depreciation computed as per Income-tax Rules is ₹ 71 lakhs.
- (ii) GST ₹ 8 lakhs collected from its customers was paid by the company on the due dates. On an appeal, the High Court directed the GST department to refund ₹ 3 lakhs to the company. The company in turn refunded ₹ 2 lakhs to the customers from whom it was collected and the balance ₹ 1 lakh is still lying under the head "Current Liabilities".

Compute the total income of Lambda Ltd. for the A.Y. 2020-21 by analyzing and applying the relevant provisions of income-tax law. Briefly explain the reasons for treatment of each item. Ignore the provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA.

18. Mr. Anil, aged 49 years, a resident individual furnishes the following particulars of income earned by him in India and Country N for the previous year 2019-20. India does not have a double taxation avoidance agreement (DTAA) with Country N.

Particulars	Amount (₹)
Income from profession carried on in Mumbai	8,50,000
Agricultural Income in Country N	1,30,000
Dividend from a company incorporated in Country N	85,000
Royalty income from a literary book from Country N	6,25,000
Expenses incurred for earning royalty	75,000
Business loss in Country N	1,10,000

The domestic tax laws of Country N does not permit set-off of business loss against any other income. The rate of income-tax in Country N is 18%. Compute total income and tax payable by Mr. Anil in India for A.Y. 2020-21, assuming that he satisfies all conditions for the purpose of section 91.

19. Examine with reasons whether the two enterprises referred to in the independent situations given below can be deemed to be associated enterprises under the Indian transfer pricing regulations:
- (i) Kingston Inc, a US company having its place of effective management also in the USA, has advanced a loan equivalent to ₹ 130 crores to Ganga Ltd., an Indian company on 10-4-2019. The total book value of assets of Ganga Ltd. is ₹ 250 crores. The market value of the assets, however, is ₹ 300 crores. Ganga Ltd. repaid ₹ 22 crores before 31-3-2020.
 - (ii) Charles plc., a UK company having its place of effective management also in the UK, has the power to appoint 4 of the directors of Andes Ltd, an Indian company, whose total number of directors in the Board is 9.
 - (iii) Total value of raw materials and consumables of Kaveri Ltd., an Indian company, is ₹ 720 crores. Of this, supplies to the tune of ₹ 650 crores are by Aurubis GmbH, a German company having its place of effective management in Germany, at prices and terms decided by the German company.
20. Singtel Ltd. is a company incorporated in Singapore and 55% of its shares are held by Godavari (P) Ltd., an Indian company. Singtel Ltd. has its presence in India also. The details relating to Singtel Ltd. for the P.Y.2019-20, are as under:

Particulars	India	Singapore
Fixed assets at depreciated values for tax purposes (₹ in crores)	120	80
Intangible assets (₹ in crores)	50	200

Other assets (value as per books of account) (₹ in crores)	40	120
Income from trading operations (₹ in crores)	25	50
The above figure includes:		
(i) Income from transactions where purchases are from associated enterprises	2	4
(ii) Income from transactions where sales are to associated enterprises	3	5
(iii) Income from transactions where both purchases and sales are from/to associated enterprises	5	10
Interest and dividend from investments (₹ in crores)	20	15
Number of employees (Residents in respective countries)	70	90
Payroll expenses on employees (₹ in crores)	8	12

Determine the residential status of Singtel Ltd. for A.Y.2020-21, if during the F.Y.2019-20, seven board meetings were held – 3 in India and 4 in Singapore.

21. What are the differences between the OECD Model Convention and UN Model Convention in relation to the article on Permanent Establishment? Examine.

MOST APPROPRIATE OPTION – OBJECTIVE TYPE QUESTIONS

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(c)
	(ii)	(d)
	(iii)	(d)
	(iv)	(c)
	(v)	(d)
2.	(i)	(c)
	(ii)	(c)
	(iii)	(d)
	(iv)	(c)
	(v)	(d)

MCQ No.	Most Appropriate Answer
3.	(d)
4.	(d)
5.	(c)
6.	(b)
7.	(d)
8.	(b)

SUGGESTED ANSWERS/HINTS – DESCRIPTIVE QUESTIONS

9. Computation of total income and tax liability of M/s. Beta & Co., a partnership firm, as per the normal provisions of the Act for A.Y. 2020-21

Particulars		₹ (in lakhs)
Business income (before deduction under section 10AA)		
SEZ Unit		50.00
Add: Amount debited to SEZ Re-investment Reserve		<u>20.00</u>
		70.00
DTA Unit		<u>40.00</u>
		110.00
Less: Deduction u/s 10AA		
= ₹ 70 lakhs × ₹ 150 lakhs/₹ 210 lakhs = 50 × 50% (being the 12 th year)	25.00	
Amount credited to SEZ Re-investment Reserve Account	<u>20.00</u>	
- whichever is less is deductible		<u>20.00</u>
Total Income		<u>90.00</u>
Tax on total income@30%		27.00
Add: Health and Education Cess@4%		<u>1.08</u>
Tax liability (as per normal provisions)		<u>28.08</u>

Computation of Adjusted total income and Alternate Minimum tax of M/s. Beta & Co., a partnership firm, as per the provisions of section 115JC for A.Y.2020-21

Particulars	₹ (in lakh)
Total income as per the normal provisions	90.00
Add: Deduction under section 10AA	<u>20.00</u>
Adjusted total income	<u>110.00</u>
Tax@18.5% of Adjusted Total Income	20.350
Add: Surcharge @12% as the adjusted total income is > ₹ 1 crore	<u>2.442</u>
	22.792
Add: Health and Education cess @4%	<u>0.912</u>
Alternate Minimum Tax as per section 115JC	<u>23.704</u>

Since the tax payable as per the normal provisions of the Act is more than the alternate minimum tax payable, the total income as per normal provisions shall be liable to tax and the tax payable for A.Y. 2020-21 shall be ₹ 28.08 lakhs.

10. **Interest under section 234A:** Since the return of income has been furnished by Gamma (P) Ltd. on 3rd November, 2020 i.e., after the due date for filing return of income (30.9.2020), interest under section 234A will be payable for 2 months @ 1% p.m. on the amount of tax payable on the total income, as reduced by tax reliefs and prepaid taxes.

Particulars	₹
Tax on total income (₹ 22,00,000 x 26%) [Since turnover of P.Y. 2017-18 does not exceed ₹ 400 crore, the rate of tax would be 26% (i.e., 25% + HEC@4%)]	5,72,000
Less: Advance tax paid	3,40,000
Less: Tax deducted at source	1,68,000
Less: Relief of tax allowed under section 90	<u>30,000</u>
Tax payable on self-assessment	<u>34,000</u>
Interest under section 234A = ₹ 34,000 x 1% x 2 months = ₹ 680	

Interest under section 234B: Where the advance tax paid by the assessee is less than 90% of the assessed tax, the assessee would be liable to pay interest under section 234B.

Computation of assessed tax	₹
Tax on total income (₹ 22,00,000 x 26%)	5,72,000
Less: Tax deducted at source	1,68,000
Less: Relief of tax allowed under section 90	<u>30,000</u>
Assessed tax	<u>3,74,000</u>
90% of assessed tax = ₹ 3,74,000 x 90% = ₹ 3,36,600	

Since the advance tax paid by Gamma (P) Ltd. (₹ 3,40,000) is more than ₹ 3,36,600, being 90% of the assessed tax (₹ 3,74,000), it is not liable to pay interest under section 234B.

Interest under section 234C

Particulars	₹
Tax on total income (₹ 22,00,000 x 26%)	5,72,000
Less: Tax deducted at source	1,68,000
Less: Relief of tax allowed under section 90	<u>30,000</u>
Tax due on returned income/Total advance tax payable	<u>3,74,000</u>

Calculation of interest payable under section 234C:

Due Date for payment of advance tax	Advance tax paid till date (₹)	Advance tax payable till date %	Minimum % of tax due on returned income to be paid till date to avoid interest u/s 234C (c)		Shortfall (₹)	Interest (₹)
			%	Amt (₹)		
15.6.2019	45,000	15%	12%	44,880	-	Nil (See Note below)
15.9.2019	1,35,000	45%	36%	1,34,640	-	Nil (See Note below)
15.12.2019	2,35,000	75%	75%	2,80,500	45,500	45,500 x 1% x 3 months = 1,365
15.3.2020	3,40,000	100%	100%	3,74,000	34,000	34,000 x 1% = 340
Interest payable under section 234C (Nil + Nil + ₹ 1,365 + ₹ 340)						₹ 1,705

Note: Since the advance tax paid by Gamma (P) Ltd. on 13th June, 2019 is more than 12% of the tax due on returned income (i.e., ₹ 3,74,000) and the advance tax paid on 14th September, 2019 is more than 36% of the tax due on returned income, it is not liable to pay any interest under section 234C in respect of these two quarters.

Fee under section 234F

₹ 5,000 is payable under section 234F by way of fee, since the return was filed after the due date but before 31.12.2020.

11. (i) For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of
- (i) cost of acquisition of such asset, i.e., actual cost; and
 - (ii) lower of
 - (a) the fair market value of such asset as on 31.1.2018; and
 - (b) the full value of consideration received or accruing as a result of the transfer of the capital asset.

The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Prasun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., $(₹ 1,200 - ₹ 700) \times 300$ shares. The long-term capital gain of ₹ 50,000 (i.e., the amount in excess of ₹ 1,00,000) would be subject to tax@10% under section 112A, without benefit of indexation.

- (ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if shares are listed on that date), else, it would be the net asset value as on 31.1.2018 (where shares are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date) and the FMV of units of Fund B as on 31.1.2018 would be ₹ 950 (being the net asset value as on 31.1.2018, since the units of Fund B are unlisted on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 $(₹ 900 - ₹ 750) \times 200$ units.

The cost of acquisition of a unit of Fund B would be ₹ 900, being higher of actual cost i.e., ₹ 550 and ₹ 900 (being the lower of FMV of ₹ 950 as on 31.1.2018 (net asset value) and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund B would be Nil $(₹ 900 - ₹ 900) \times 200$ units.

Since the long-term capital gains on sale of units is ₹ 30,000, which is less than ₹ 1,00,000, the said sum is not chargeable to tax under section 112A.

12. (a) As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Ascertainment of tax liability of Epsilon Limited from slump sale of software unit

Particulars	₹ (in lakhs)
Sale consideration for slump sale of Software Unit	840
Less: Cost of acquisition being the net worth of Software Unit	<u>370</u>
Long term capital gains arising on slump sale	<u>470</u>
(The capital gains is long-term as the Software Unit is held for more than 36 months)	
<u>Tax liability on LTCG</u>	
Under section 112@20% on ₹ 470 lakhs	94.00
Add: Surcharge@7% (since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crores)	<u>6.58</u>
	100.58
Add: Health and education cess@4%	<u>4.02</u>
	<u>104.60</u>

Working Note: Computation of net worth of Software Unit

Particulars	₹ (in lacs)
(1) Book value of non-depreciable assets	
(i) Land (Revaluation not to be considered)	80
(ii) Debtors	220
(iii) Inventories	70
(2) Written down value of depreciable assets under section 43(6)	<u>180</u>
(See Note below)	
Aggregate value of total assets	550
Less: Current liabilities of software unit	<u>180</u>
Net worth of software unit	<u>370</u>

Note: For computing net worth, the aggregate value of total assets in the case of depreciable assets shall be the written down value of the block of assets as per section 43(6).

(b) Tax advice

- (i) Transfer of any capital asset by a holding company to its 100% Indian subsidiary company is exempt from capital gains under section 47(iv). Hence,

Epsilon Limited should try to acquire the remaining 10% equity shares in Phi Limited then make the slump sale in the above said manner, in which case the slump sale shall be exempt from tax. For this exemption, Epsilon Limited will have to keep such 100% holding in Phi Limited for a period of 8 years from the date of slump sale, otherwise the amount exempted would be deemed to be income chargeable under the head “Capital Gains” of the previous year in which such transfer took place.

- (ii) Alternatively, if acquisition of 10% share is not feasible, Epsilon Limited may think about demerger plan of Software Unit to get benefit of section 47(vib) of the Income-tax Act, 1961.

13. Computation of “Book Profit” for levy of MAT under section 115JB for A.Y.2020-21

Particulars	₹	₹
Net Profit as per Statement of Profit and Loss		36,00,000
<i>Add: Net profit to be increased by the following amounts as per Explanation 1 to section 115JB:</i>		
- Provision for the loss of subsidiary	92,000	
- Provision for doubtful debts, being the amount set aside as provision for diminution in the value of any asset	1,05,000	
- Provision for income-tax	2,17,000	
Further, as per <i>Explanation 2</i> to section 115JB, income-tax shall include, <i>inter alia</i> , any interest charged under the Act, therefore, whole of the amount of provision for income-tax including ₹ 70,000 towards interest payable has to be added]		
- Depreciation as per books of account	<u>2,70,000</u>	<u>6,84,000</u>
		42,84,000
<i>Less: Net profit to be decreased by the following amounts as per Explanation 1 to section 115JB:</i>		
- Share in income of an AOP as a member	2,25,000	
<i>[In a case where AOP has paid tax on its total income at maximum marginal rate, no income-tax is payable by the company, being a member of AOP, in accordance with the provisions of section 86. Therefore, share in income of an AOP on which no income-tax is payable in accordance with the provisions of section 86, would be reduced while computing book profit, since the same has been credited to statement of profit and loss]</i>		

-	Income from units in UTI <i>[Income from units in UTI shall be reduced while computing the book profits, since the same is exempt under section 10(35)]</i>	52,000	
-	Depreciation other than depreciation on revaluation of assets (₹ 2,70,000 – ₹ 1,20,000)	1,50,000	
-	Unabsorbed depreciation or brought forward business loss, whichever is less, as per the books of account. <i>[Lower of unabsorbed depreciation ₹ 12,00,000 and brought forward business loss ₹ 13,00,000 as per books of accounts has to be reduced while computing the book profit]</i>	12,00,000	
			<u>16,27,000</u>
	Book Profit		<u>26,57,000</u>

Computation of MAT liability under section 115JB

Particulars	₹
15% of book profit	3,98,550
Add: Health & Education Cess@4%	<u>15,942</u>
Minimum Alternate Tax liability	<u>4,14,492</u>
MAT liability (rounded off)	4,14,490

Notes:

- (1) It is only the specific items mentioned under *Explanation 1* to section 115JB, which can be adjusted from the net profit as per the Statement of Profit and Loss prepared as per the Companies Act for computing book profit for levy of MAT. Since the following items are not specified thereunder, the same cannot be adjusted for computing book profit:
 - Interest to financial institution (unpaid before filing of return) and
 - Penalty for infraction of law
 - (2) Provision for gratuity based on actuarial valuation is an ascertained liability [*CIT v. Echjay Forgings (P) Ltd. (2001) 251 ITR 15 (Bom.)*]. Hence, the same should not be added back to compute book profit.
 - (3) As per proviso to section 115JB(6), the profits from unit established in special economic zone cannot be excluded while computing the book profit, and hence, such income would be liable for MAT.
14. As per section 80-IB(1) read with section 80-IB(9), where the gross total income of an assessee includes any profits and gains derived from, *inter alia*, the business of

commercial production of mineral oil, deduction will be allowed at 100% of such profits for a period of seven consecutive assessment years.

The issue under consideration in this case is whether transport subsidy, interest subsidy and power subsidy received from the Government can be treated as profits derived from business or undertaking to qualify for deduction under section 80-IB.

This issue came up before the Supreme Court in *CIT v. Meghalaya Steels Ltd. (2016) 383 ITR 217*, wherein it was observed that an important test to determine whether the profits and gains are derived from business or an undertaking is that there should be a direct nexus between such profits and gains and the undertaking or business. Such nexus should not be only incidental. The profits and gains referred to in section 80-IB has reference to net profit, which can be calculated by deducting from the sale price of an article, all elements of cost which go into manufacturing or selling it. Thus, the profits arrived at after deducting manufacturing costs and selling costs reimbursed to the assessee by the Government, is the profits and gains derived from the business of the assessee.

The Supreme Court observed that section 28(iib) specifically states that income from cash assistance, by whatever name called, received or receivable by any person against exports under any scheme of the Government of India, will be income chargeable to income-tax under the head "Profits and gains of business or profession". The Apex Court further observed that if cash assistance received or receivable against exports schemes are being included as income under the head "Profits and gains of business or profession", subsidies which go to reimbursement of cost in the production of goods of a particular business would also have to be included under the head "Profits and gains of business or profession", and not under the head "Income from other sources".

Accordingly, the Supreme Court held that transport subsidy, interest subsidy and power subsidy from Government were revenue receipts which were reimbursed to the assessee for elements of cost relating to manufacture or sale of their products. Therefore, there is a direct nexus between profits and gains of the undertaking or business, and reimbursement of such subsidies. The subsidies were only in order to reimburse, wholly or partially, costs actually incurred by the assessee in the manufacturing and selling of its products.

Applying the rationale of the Supreme Court ruling in the above case, the action of the Assessing Officer in not allowing deduction under section 80-IB in respect of transport subsidy, interest subsidy and power subsidy received by Alpha Ltd. from the Government, is **not** correct.

15. (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.

16. As per section 115TD, the accreted income of "Helpage", a charitable trust, registered under section 12AA which is merged with M/s Medicare (P) Ltd., an entity not entitled for registration under section 12AA, would be chargeable to tax at the rate of 34.944% [30% plus surcharge @12% plus cess@4%].

Computation of accreted income and tax liability in the hands of the Helpage trust arising as a result of merger with M/s. Medicare (P) Ltd.

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2019, being the specified date (date of merger) [See Working Note 1]	1,39,10,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	<u>82,00,000</u>
Accreted Income	<u>57,10,000</u>
Tax Liability @ 34.944% of ₹ 57,10,000 (rounded off)	19,95,300
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- Land at Noida, being immovable property, purchased on 1.9.2010	-
Since the trust was registered only on 1.2.2013 and benefit of	

<p>section 11 and 12 was available to the trust only from A.Y.2013-14, relevant to P.Y.2012-13, being the previous year in which the application for registration is made, the value of land purchased in P.Y.2010-11, in respect of which benefit under sections 11 and 12 was not availed, has to be ignored for computing accreted income.</p>	
<p>- Land at Gurgaon, being an immovable property, purchased on 1.9.2013</p> <p>[The fair market value of land would be higher of ₹ 120 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 100 lakhs, being stamp duty value as on the specified date, i.e., 1.4.2019]</p>	1,20,00,000
<p>- Quoted equity shares of A Ltd. [5,000 x ₹ 310 per share]</p> <p>[₹ 310 per share, being the average of the lowest (₹ 300) and highest price (₹ 320) of such shares on the specified date]</p>	15,50,000
<p>- Preference shares of B Ltd. [2,000 x ₹ 180 per share]</p> <p>[The fair market value which it would fetch if sold in the open market on the specified date i.e. FMV on 1.4.2019]</p>	3,60,000
	<u>1,39,10,000</u>
(2) Total liability	
- Reserves and Surplus ₹ 18 lakhs [not includible]	-
- Corpus Fund of ₹ 12 lakhs [not includible]	-
- Provision for taxation ₹ 8 lakhs [not includible]	-
- Other Liabilities	
[₹ 120 lakhs - ₹ 18 lakhs - ₹ 12 lakhs - ₹ 8 lakhs]	82,00,000
	<u>82,00,000</u>

17. **Computation of Total Income of Lambda Ltd. for the A.Y. 2020-21**

	Particulars	Amount (₹)	
I	Profits and gains of business and profession		
	Net profit as per the statement of profit and loss		7,50,00,000
	Add: Items debited but to be considered separately or items of expenditure to be disallowed		
	(a) Depreciation as per Companies Act	52,00,000	
	(c) Provision for wages payable to workers	-	
	[Since the provision is based on a fair		

	<p>estimate of wages payable with reasonable certainty, the provision is allowable as deduction. ICDS X requires a reliable estimate of the amount of obligation and 'reasonable certainty' for recognition of a provision, which is present in this case.</p> <p>As the provision of ₹ 18 lakhs has been debited to statement of profit and loss, no adjustment is required while computing business income]</p>	
(e)	<p>Loss due to destruction of machinery by fire</p> <p>[Loss of ₹ 17 lakhs due to destruction of machinery caused by fire is not deductible since it is capital in nature.</p> <p>Since the loss has been debited to statement of profit and loss, the same is required to added back while computing business income]</p>	17,00,000
(f)	<p>Provision for gratuity</p> <p>[Provision of ₹ 320 lakhs for gratuity based on actuarial valuation is not allowable as deduction.</p> <p>However, actual gratuity of ₹ 180 lakhs paid is allowable as deduction.</p> <p>Hence, the difference has to be added back to income [₹ 320 lakhs (-) ₹ 180 lakhs]</p>	1,40,00,000
(g)	<p>Purchase of raw cotton at a price higher than the fair market value</p> <p>[Since the purchase is from a related party, a firm in which majority of the directors of the company are partners, at a price higher than the fair market value, the difference between the purchase price (₹ 20,000 per bale) and the fair market value (₹ 18,000 per bale) multiplied by the quantity purchased (1000 bales, i.e., [₹ 2,000 x 1,000) has to be added back]</p>	20,00,000

<p>(h) Advertisement in souvenir of a political party [Advertisement charges paid in respect of souvenir published by a political party is not allowable as deduction from business profits of the company. Since, the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]</p>	2,30,000	
		<u>2,31,30,000</u>
		9,81,30,000
<p>Add: Income taxable but not credited to statement of profit and loss</p> <p>Al(ii) GST not refunded to customers out of GST refund received from State Govt. [The amount of GST refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of ₹ 3 lakhs, the amount of ₹ 2 lakh stands refunded to customers would not be chargeable to tax.¹ The balance amount of ₹ 1,00,000 lying with the company would be chargeable to tax]</p>		1,00,000
		9,82,30,000
<p>Less: Items credited to statement of profit and loss, but not includible in business income/ permissible expenditure and allowances</p> <p>(b) Industrial power tariff concession received from State Government [Any assistance in the form of, <i>inter alia</i>, concession received from the Central or State Government would be treated as income. Since the same has been credited</p>	-	

¹CIT v. Thirumalaiswamy Naidu & Sons (1998) 230 ITR 534 (SC)

	to statement of profit and loss, no adjustment is required]		
(d)	Dividend received from US company [Dividend received from foreign company is taxable under "Income from other sources". Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]	12,00,000	
(e)	Scrap value of machinery [Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]	3,00,000	
(i)	Long term capital gains of sale of equity shares [The taxability or otherwise of long term capital gain on sale of equity shares has to be considered while computing income under the head "Capital Gains". Since such capital gains has been credited to statement of profit and loss, the same has to be reduced to arrive at the business income.]	3,00,000	
Al(i)	Depreciation as per Income-tax Rules, 1961 [See Note below]	<u>71,00,000</u>	<u>89,00,000</u>
	Profits and gains from business and profession		8,93,30,000
II	Income from Other Sources		
	Dividend received from foreign company [Dividend received from a foreign company is chargeable to tax under the head "Income from other sources"]		12,00,000
III	Capital Gains		
	Long term capital gain on sale of equity shares [Long term capital gains in excess of ₹ 1 lakh (i.e., ₹ 2 lakh, being ₹ 3 lakh – ₹ 1 lakh) on sale		3,00,000

of equity shares on which STT is paid at the time of acquisition and sale would be taxable@10% u/s 112A, without indexation benefit.]	
Gross Total Income	9,08,30,000
Less: Deduction under Chapter VI-A	
Under section 80GGB [Contribution by a company to a registered political party is allowable as deduction, since payment is made otherwise than by cash. Expenditure incurred by an Indian company on advertisement in souvenir published by such political party tantamounts to contribution to such political party.]	
	<u>2,30,000</u>
Total Income	9,06,00,000

Note – As per section 43(6)(c), for computation of written down value (WDV) of a block of asset at the end of the year, the amount of scrap value received has to be reduced from the value of block of assets at the beginning of the previous year and cost of assets purchased during the year. Depreciation is calculated on the value so arrived of the block of asset as on 31.3.2020. In the question, adjustment (e) states that scrap value of ₹ 3 lakh is received in respect of destroyed machinery and same is credited in the statement of profit and loss. In the additional information, since, depreciation as per Income-tax Rules, 1962 is given, no further adjustment for scrap value is done, presuming that the same has already been reduced to arrive at the value of the block as on 31.3.2020 and depreciation has been calculated on the said value of the block.

Alternatively, since scrap value has been credited to the statement of profit and loss, it is possible to take a view that the amount of scrap value is not reduced while computing the value of the assets. In such a case, depreciation allowable would be ₹ 70,55,000 [i.e., ₹ 71,00,000 – ₹ 45,000, being 15% of ₹ 3,00,000]. The business income and total income would be ₹ 8,93,75,000 and ₹ 9,06,45,000, respectively.

18. **Computation of total income of Mr. Anil for A.Y.2020-21**

Particulars	₹	₹
Profits and Gains of Business or Profession		
Income from profession carried on in India	8,50,000	
Less: Business loss in Country N	<u>1,10,000</u>	7,40,000
Income from Other Sources		
Agricultural income in Country N [Not exempt u/s 10(1)]	1,30,000	
Dividend received from a company incorporated in Country N [Not exempt u/s 10(34)]	85,000	
Royalty income from a literary book in Country N (after		

deducting expenses of ₹ 75,000)	<u>5,50,000</u>	<u>7,65,000</u>
Gross Total Income		15,05,000
Less: Deduction under Chapter VIA		
Under section 80QQB – Royalty income of a resident from a literary book²		<u>3,00,000</u>
Total Income		<u>12,05,000</u>
Computation of tax liability of Mr. Anil for A.Y.2020-21		
Particulars		₹
Tax on total income [30% of ₹ 2,05,000 plus ₹ 1,12,500]		1,74,000
Add: Health and education cess @4%		<u>6,960</u>
Tax Liability		1,80,960
Calculation of Rebate under section 91:		
Average rate of tax in India [i.e., ₹ 1,80,960 / ₹ 12,05,000 x 100]	15.0174%	
Average rate of tax in Country N	18%	
Doubly taxed income pertaining to Country N		₹
Agricultural Income	1,30,000	
Royalty Income [₹ 6,25,000 – ₹ 75,000 (Expenses) – ₹ 3,00,000 (deduction under section 80QQB)] ³	2,50,000	
Dividend income	<u>85,000</u>	
	4,65,000	
Less: Business Loss set off	<u>1,10,000</u>	
	<u>3,55,000</u>	
Rebate under section 91 on ₹ 3,55,000 @ 15.0174% [being the lower of average Indian tax rate (15.0174%) and foreign tax rate (18%)]		<u>53,312</u>
Tax Payable		<u>1,27,648</u>
Tax Payable (Rounded off)		1,27,650

19. (i) Kingston Inc, a foreign company, has advanced loan of ₹ 130 crores to Ganga Ltd., an Indian company, which amounts to 52% of book value of assets of Ganga Ltd. Since the loan advanced by Kingston Inc. is 51% or more of the book value of assets of Ganga Ltd., Kingston Inc. and Ganga Ltd. are deemed to be associated

² 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.

³ 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.).

enterprises under the Indian transfer pricing regulations.

The deeming provisions would be attracted even if there is a repayment of loan during the same previous year which brings down the said percentage below 51%.

- (ii) Charles plc, a foreign company has the power to appoint 44.44% (4 out of 9) of the directors of an Indian company, Andes Ltd.

Two enterprises would be deemed to be associated enterprises **if more than half of the board of directors** of one enterprise **are appointed by the other enterprise**.

In this case, since Charles plc has the power to appoint only 44.44% (which is less than half) of the directors of an Indian company, Andes Ltd., Charles plc and Andes Ltd. are **not** deemed to be associated enterprises.

- (iii) Since Aurubis GmbH, a German company, supplies 90.27% of the raw materials and consumables required by Kaveri Ltd., an Indian company, which is more than the specified threshold of 90%; and the prices and terms of supply are decided by the German company, the two companies are deemed to be associated enterprises.

20. The residential status of a foreign company is determined on the basis of place of effective management (POEM) of the company.

For determining the POEM of a foreign company, the important criteria is whether the company is engaged in active business outside India or not.

A company shall be said to be engaged in “**Active Business Outside India**” (ABOI) for POEM, if

- the passive income is not more than 50% of its total income; **and**
- less than 50% of its total assets are situated in India; **and**
- less than 50% of total number of employees are situated in India or are resident in India; **and**
- the payroll expenses incurred on such employees is less than 50% of its total payroll expenditure.

Singtel Ltd. shall be regarded as a company engaged in active business outside India for P.Y.2019-20 for POEM purpose only if it satisfies all the four conditions cumulatively.

Condition 1: The passive income of Singtel Ltd. should not be more than 50% of its total income

Total income of Singtel Ltd. during the P.Y. 2019-20 is ₹ 110 crores [(₹ 25 crores + ₹ 50 crores) + (₹ 20 crores + ₹ 15 crores)]

Passive income is the aggregate of, -

- (i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and

(ii) income by way of royalty, dividend, capital gains, interest or rental income;

Passive Income of Singtel Ltd. is ₹ 50 crores, being sum total of :

- (i) ₹ 15 crores, income from transactions where both purchases and sales are from/to associated enterprises (₹ 5 crores in India and ₹ 10 crores in Singapore)
- (ii) ₹ 35 crores, being interest and dividend from investment (₹ 20 crores in India and ₹ 15 crores in Singapore)

Percentage of passive income to total income = ₹ 50 crore/ ₹ 110 crore x 100 = 45.45%

Since passive income of Singtel Ltd. is **45.45%**, which is not more than 50% of its total income, the first condition is satisfied.

Condition 2: Singtel Ltd. should have less than 50% of its total assets situated in India

Value of total assets of Singtel Ltd. during the P.Y. 2019-20 is ₹ 610 crores [₹ 210 crores, in India + ₹ 400 crores, in Singapore]

Value of total assets of Singtel Ltd. in India during the P.Y. 2019-20 is ₹ 210 crores

Percentage of assets situated in India to total assets = ₹ 210 crores/₹ 610 crores x 100 = 34.43%

Since the value of assets of Singtel Ltd. **situated in India is less than 50%** of its total assets, the second condition for ABOI test is satisfied.

Condition 3: Less than 50% of the total number of employees of Singtel Ltd. should be situated in India or should be resident in India

Number of employees situated in India or are resident in India is 70

Total number of employees of Singtel Ltd. is 160 [70 + 90]

Percentage of employees situated in India or are resident in India to total number of employees is 70/160 x 100 = **43.75%**

Since employees situated in India or are residents in India of Singtel Ltd. **are less than 50%** of its total employees, the third condition for ABOI test is satisfied.

Condition 4: The payroll expenses incurred on employees situated in India or resident in India should be less than 50% of its total payroll expenditure

Payroll expenses on employees employed in and resident of India = ₹ 8 crores.

Total payroll expenses = ₹ 20 crores (₹ 8 crores + ₹ 12 crores)

Percentage of payroll expenses of employees situated in India or are resident in India to the total payroll expenses = 8 x 100/20 = **40%**

Since the payroll expenses incurred on employees situated in India or resident in India is **less than 50% of its total payroll expenditure**, the fourth condition for ABOI test is also satisfied.

Thus, since Singtel Ltd. has satisfied all the four conditions, the company would be said to be engaged in “active business outside India” during the P.Y.2019-20.

POEM of a company engaged in active business outside India shall be presumed to be outside India, if the majority of the board meetings are held outside India.

Since Singtel Ltd. is engaged in active business outside India in P.Y. 2019--20 and majority of its board meetings i.e., 4 out of 7, were held outside India, POEM of Singtel Ltd. would be outside India.

Therefore, Singtel Ltd. would be non-resident in India for the P.Y. 2019-20.

21. In relation to Article 5 on Permanent Establishment, the UN Model Convention varies from the OECD Model Convention in the following aspects:

(i) As per Article 5(3)(a) of the OECD Model Convention, a building site or construction or installation project constitutes a PE if it lasts more than twelve months. The UN Model Convention is wider as it covers “assembly and installation project” and “supervisory” activities in connection thereto and requires the activity in question to continue only for six months for constituting a PE.

(ii) Article 5(3)(b) of the UN Model Convention makes a specific reference to Service PE which is absent in the OECD Model Convention. Under the UN Model Convention, furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose would constitute a PE, but only if activities of that nature continue within a Contracting State for a period or periods aggregating more than 183 days in any 12 month period commencing or ending in the fiscal year concerned.

In the absence of a Service PE reference in OECD Model Convention, the presence has to be ascertained through general principles under Article 5(1).

(iii) The UN Model Convention has an additional Article 5(6) relating to insurance which is absent in OECD Model Convention. As per this Article in the UN Model Convention, an insurance enterprise of a Contracting State shall, except in regard to re-insurance, be deemed to have a permanent establishment in the other Contracting State if it collects premiums in the territory of that other State or insures risks situated therein through a person.

In the absence of similar Article in the OECD Model Convention, a PE of an insurance Enterprise has to be determined in accordance with provisions of Article 5(1) or 5(2) of the OECD Model Convention.

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 31.10.2019 and customs law as amended by the Finance (No. 2) Act, 2019 and notifications and circulars issued till 31.10.2019.
- (2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. The rates of customs duty are also hypothetical and may not necessarily be the actual rates. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1. ABC Petroleum Limited is engaged in the business of refining and marketing of petroleum products. It has one refinery each in the States of Tamil Nadu, West Bengal & Maharashtra and numerous administrative and marketing offices spread across the country. The Company has separate marketing cum administrative offices for every major State and common administrative cum marketing offices for a group of small States e.g., all north-eastern States are covered under one marketing cum administrative office. The Company also blends lubricants in its blending plants located in the States of Maharashtra and Tamil Nadu.

As a policy, all the places of business of the Company in a State are registered under one registration.

Imported crude is used as input in the refinery and following major products are extracted after refining process:

Products chargeable to GST (Group A)	Products not chargeable to GST (Group B)
Base oil (An input for blending lubricants)	Petrol
Furnace oil	Diesel
Bitumen (Used for road construction)	Air turbine fuel
LPG (Domestic and Industrial)	

Base oils are further sent to blending plants where they are blended with additives to produce lubricants. The Company provides the following particulars for States of Tamil Nadu, Maharashtra and Kerala for the month of January 20XX:

(Amount in thousands)

Particulars	Tamil Nadu (₹)	Maharashtra (₹)	Kerala (₹)
Value of supply inclusive of all taxes/duties (Group B products)	1,650	3,400	1,575
Value of supply (Group A products) before all taxes/duties	100	200	20
Excise duty leviable on supply of Group B products	500	1,000	110
VAT on supply of Group B products	250	600	65
Tax paid on inputs and input services procured at the blending plant	5	6	0
Tax paid on spares procured at the refinery (Spares are booked in revenue account)	3	8	0
Tax paid on inputs and input services procured at the marketing cum administrative office	2	3	1
Tax paid capital asset procured at the blending plant	0	5	0
Tax paid capital asset procured at the refinery	12	0	0

Assume that all of the Group A products are chargeable to GST @ 18% (including both CGST and SGST or IGST, as the case may be)

The Finance department of ABC Petroleum Limited seeks your professional advice on following questions:

- (i) The value of company's supply in the Union Territory of Puducherry is ₹ 32,34,000 (Group A products) and in the State of Goa is ₹ 18,38,000 (Group A and Group B products) for the year ending March 20XX. GST registration is
 - (a) Not required for both Puducherry and Goa
 - (b) Not required for Goa but required for Puducherry
 - (c) Required for both Puducherry and Goa
 - (d) Not required for Puducherry but required for Goa
- (ii) The eligible ITC available at marketing cum administrative office located in the State of Maharashtra, for the month of January 20XX, is-
 - (a) ₹ 3,000

- (b) ₹ 300
 - (c) ₹ 166.67
 - (d) ₹ 1,500
- (iii) The eligible ITC in respect of the capital asset procured in the State of Tamil Nadu, for the month of January 20XX:
- (a) ₹ 12,000
 - (b) ₹ 200
 - (c) ₹ 11,811.11
 - (d) ₹ 11,820
- (iv) Lubricant valued at ₹ 10,000 has been stock transferred from the blending plant located in the State of Tamil Nadu to the refinery located in the same State, in the month of January 20XX. The GST (CGST and SGST) payable on such transaction is?
- (a) Nil as the transaction is not a supply
 - (b) ₹ 900
 - (c) ₹ 1,800
 - (d) Nil as such supply is exempted from GST
- (v) Due to sudden fire in the store room of the refinery located in Maharashtra on January 28th 20XX, the entire quantity of spares procured in the month of January 20XX gets destroyed. What action is required from ABC Petroleum Limited?
- (a) No action is required on the part of ABC Petroleum Limited under GST Law.
 - (b) ABC Petroleum Limited should report to jurisdictional GST Department for verification of the loss of inputs on account of fire.
 - (c) ABC Petroleum Limited should not avail ITC of tax paid on the spares.
 - (d) ABC Petroleum Limited should avail ITC and reverse the same.
2. Dumdum Engineering Private Limited (DEPL), Surat (Gujarat), a supplier of heavy machinery, supplied a machine to Gulati Manufacturers from its godown located in Mumbai, Maharashtra, on 1st January at a price of ₹ 64,00,000 (excluding all taxes). Gulati Manufacturers has its corporate office in New Delhi. However, the machinery was installed at its manufacturing unit located in Gurugram (Haryana) for which installation and commissioning charges of ₹ 4,80,000 and handling and loading charges of ₹ 1,60,000, were charged by DEPL. For every machinery supplied, DEPL receives a grant of ₹ 3,20,000 from its holding company Dharam Ltd.

Transportation of machinery to the customer's premises is arranged by DEPL through a third-party service provider [Goods Transport Agency (GTA)]. Gulati Manufacturers

entered into a separate service contract with the GTA and paid the freight of ₹ 50,000 directly to it.

DEPL offered a cash discount of 2% on the price of the machinery at the time of supply since Gulati Manufacturers agreed to make the payment within 15 days of the receipt of the machinery at its premises. However, it was agreed that in case Gulati Manufacturers failed to make the payment within the stipulated time, DEPL would-

- recover the discount given; and
- charge interest @ 1% per month or part of the month on the total amount due (including discount recovered) from Gulati Manufacturers (towards the machinery supplied) from the date of making the supply till the date of payment. However, no interest is to be charged on the tax dues.

Gulati Manufacturers paid the consideration for the machine on 31st March. Since the payment was made after the stipulated period of 15 days of the receipt of the machinery, discount given was recovered from it and interest was accordingly charged. However, Gulati Manufacturers refused to pay tax on interest and discount recovered.

Assume the rates of taxes to be as under:

Supply	CGST rate	SGST rate	IGST rate
Machinery supplied	6%	6%	12%
Service of transportation of goods	2.5%	2.5%	5%
Other services involved in the above supply	9%	9%	18%

In view of the above information, you are required to answer the following questions:

- (i) The place of supply of the machinery supplied by DEPL is _____ and the nature of supply is _____.
 - (a) Gujarat, intra-State supply
 - (b) Haryana, inter-State supply
 - (c) New Delhi, inter-State supply
 - (d) Maharashtra, inter-State supply
- (ii) The GST liability of DEPL for the month of January is _____ (approx.).
 - (a) 9,46,660
 - (b) 8,67,840
 - (c) 9,06,153
 - (d) 8,98,560

- (iii) The GST liability of DEPL for the month of March is _____(approx.).
- (a) 36,343
 (b) 36,504
 (c) 35,314
 (d) Nil
- (iv) Supply of machinery and supply of installation and commissioning services is _____ supply. Time of supply of interest received by DEPL and cash discount recovered on account of delayed payment of consideration is _____.
- (a) composite, 31st March
 (b) composite, 1st January
 (c) mixed, 1st January
 (d) mixed, 31st March
- (v) If the grant of ₹ 3,20,000 received by DEPL had been received from Central Government instead of its holding company Dharam Ltd., with other facts remaining the same, the GST liability of DEPL for the month of January would have been _____ (approx.).
- (a) 9,46,660
 (b) 8,67,840
 (c) 9,06,153
 (d) 8,98,560
3. Shree Ram Seva Trust is a charitable institution registered under section 12AA of the Income-tax Act, 1961. It has organized a skill development programme relating to persons over the age of 65 years residing in a well-planned city, in the month of April. It has received following amounts under the programme:

Particulars	Amount (₹)
Subscription fees for the programme	50,000
Sponsorship fees	1,00,000
Consideration for supply of goods	3,00,000

Besides, the trust has received the donations of ₹ 2,00,000 in April. Hanuman, accountant of Shree Ram Seva Trust, is not able to determine the taxability of the above amounts received under GST law. He seeks your expertise in determining the same.

Determine the value of taxable supply of Shree Ram Seva Trust, for the month of April.

- (a) Nil
- (b) ₹ 6,50,000
- (c) ₹ 6,00,000
- (d) ₹ 4,50,000

4. Happy Singh is the lawful owner of a residential house situated in Chandigarh. The property has four floors constructed on it. Out of the four floors in his house, first and second floor are self-occupied and third and fourth floor have been let out for residential purposes. Ratanjot Singh, who is a tenant on third floor, has surrendered his tenancy rights to Parminder Singh for a tenancy premium of ₹ 5,00,000 on 1st June. Parminder Singh has paid the applicable stamp duty and registration charges on transfer of tenancy rights. Moreover, Parminder Singh will pay a monthly rent of ₹ 50,000 to Happy Singh from June.

Determine the value of taxable supply, in the given case, for the month of June.

- (a) Happy Singh: ₹ 5,50,000; Ratanjot Singh: Nil
 - (b) Happy Singh: Nil; Ratanjot Singh: ₹ 5,00,000
 - (c) Happy Singh: ₹ 50,000; Ratanjot Singh: Nil
 - (d) Happy Singh: ₹ 50,000; Ratanjot Singh: ₹ 5,00,000
5. Mr. Kala is a proprietor of M/s. Kala & Associates (registered under GST) which deals in sale/ purchase of second hand cars. During the current financial year, he effected following intra-State transactions:

Particulars	Purchase Price	Sale Price
Car 1	₹ 5,00,000	₹ 7,50,000
Car 2	₹ 3,00,000	₹ 2,75,000
Car 3	₹ 6,00,000	₹ 6,50,000
Car 4	₹ 8,00,000	₹ 9,50,000

Mr. Kala purchased Car 4 from another registered person who charged GST of ₹ 1,30,000 and accordingly, Mr. Kala has availed the input credit of the same.

Determine the GST liability of Mr. Kala assuming the applicable rate of tax as 18%.

- (a) ₹ 95,000
- (b) ₹ 1,08,000
- (c) ₹ 1,30,500
- (d) Exempt Supply, No GST

6. Lucky Singh, a resident of Noida, U.P., went to Himachal Pradesh for a family vacation via Delhi-Chandigarh-Himachal Pradesh in his own car. After entering Chandigarh, his car broke down due to some technical issue. He called 'ONROARDS' - an emergency roadside car assistance company (registered under GST in Delhi) to repair the car. The car was repaired by the staff of 'ONROARDS'. The value of supply amounted to ₹ 50,000 (being labour charges ₹ 40,000 and spares ₹ 10,000). The bill was supposed to be generated online through the server, but due to some technical issue, it was not so generated.

Determine the place of supply in the given case.

- (a) Delhi
 - (b) Chandigarh
 - (c) Noida, U.P
 - (d) Himachal Pradesh
7. Outline the stepwise procedure of import of goods into India.
- i. Filing of Import General Manifest
 - ii. Arrival of vessel
 - iii. Grant of entry inwards to vessel
 - iv. Unloading of goods
 - v. Assessment of goods
 - vi. Filing of Bill of Entry
 - vii. Payment of duty
- (a) (i), (ii), (iii), (iv), (v), (vi) and (vii)
 - (b) (ii), (iii), (i), (iv), (v), (vi) and (vii)
 - (c) (iii), (ii), (i), (vi), (v), (vii) and (iv)
 - (d) (ii), (i), (iii), (iv), (vi), (v) and (vii)
8. Which of the following is not correct in relation to claim of duty drawback under section 75 of the Customs Act, 1962?
- i. The upper limit for drawback is one third of market price of export product.
 - ii. Countervailing duties and safeguard duties are included in all industry rates of drawback.
 - iii. Countervailing duties and safeguard duties are included while determining all industry rates of drawback and thus can be claimed in application for fixing brand rate.

- iv. Provisions of section 75 are not applicable on goods exported by post.
- (a) (i), (ii) and (iv)
- (b) (i), (iii) and (iv)
- (c) (ii) and (iv)
- (d) (iii) and (iv)
9. Skylark Pvt. Ltd., Noida (Uttar Pradesh) is engaged in various kinds of commercial activities. It manufactures taxable goods as also provides certain services. The company has branch office in New Delhi. The Head office at Noida and the branch office in New Delhi are registered under GST. The branch office at New Delhi is eligible for full input tax credit.

The company has reported a total turnover of ₹ 256 crore (exclusive of GST) for the month of August 20XX. The following information is provided by the company in relation to such turnover:

- (i) The turnover includes ₹ 45 crore from sale of securities which were purchased for ₹ 30 crore in the month of January last year.
- (ii) The company supplied goods worth ₹ 50 crore to ABC Ltd. in UK under a letter of undertaking (LUT). The total export proceeds are received in the month of August 20XX itself; ₹ 30 crore in foreign currency and balance ₹ 20 crore in Indian rupees.
- (iii) The company provided consulting services to Sherpa & Sons in Nepal for ₹ 30 crore under a LUT. The entire consideration is received in Indian rupees in the month of August 20XX itself, with the permission of RBI.
- (iv) The turnover includes supply of goods worth ₹ 10 crore to Shanghai Jianguo Trading Company Ltd., a company based in China. As per the sale contract, the goods were to be assembled at Shanghai Jianguo Trading Company Ltd.'s office in Gurugram, Haryana. The payment of the goods is received in convertible foreign exchange in the month of August 20XX itself.
- (v) Goods worth ₹ 20 crore are supplied under a LUT to DEF Pvt. Ltd. located in a SEZ in the State of Uttar Pradesh.
- (vi) Goods worth ₹ 40 lakh were being procured from a vendor in Japan. While the goods were in transit, the company secured an order for the said goods for ₹ 50 lakh from a buyer in Thailand. Thus, the goods were directly sent to Thailand without entering India.
- (vii) The company owns three immovable properties in Noida. The first building is let out for running a printing press at ₹ 10 lakh per month. The second building is let out

for residential purpose at ₹ 5 lakh per month. The third building is let out to a Cold Storage operator at ₹ 5 lakh per month. The cold storage operator sub-lets the building as a warehouse to store potatoes.

- (viii) The remaining turnover comprised of taxable goods sold within the State and outside the State in the ratio of 3:2.

Total turnover of ₹ 256 crore includes the turnover referred to in points (i) to (vii) above.

In addition to above –

- (i) the company transferred its stock (taxable goods) from Noida to Delhi branch without any consideration; the value declared in the invoice is ₹ 4.5 crore (exclusive of GST). The cost of production of such goods is ₹ 10 crore. Such stock is sold to independent buyers at ₹ 15 crore (exclusive of GST).
- (ii) the company had sent goods worth ₹ 12 crore (exclusive of GST) to M/s Sharma Traders in Haryana on approval basis on 15th January, 20XX, 15th February 20XX & 15th March 20XX (₹ 4 crore each month). Goods sent during all the three months are approved in the month of September 20XX.

Compute the GST liability [CGST & SGST or IGST, as the case may be] of Skylark Pvt. Ltd., Noida for the month of August 20XX. Make suitable assumptions wherever required.

Assume the rates of taxes to be as under:

	CGST	SGST	IGST
Goods	6%	6%	12%
Services	9%	9%	18%

10. 'PQ', a statutory body, deals with the all the advertisement and publicity of the Government. It has issued a release order to 'Moon Plus' channel (registered in State 'A') for telecasting an advertisement relating to one of the schemes of the Government in the month of September 20XX. The advertisement will be telecasted in the States of 'A', 'B', 'C', 'D' and 'E'. The total value of the service contract entered into between 'Moon Plus' and 'PQ' is ₹ 10,00,000 (exclusive of GST).

You are required to determine the place of supply of the services in the instant case as also the value of supply attributable to the States of 'A', 'B', 'C', 'D' and 'E'.

Further, compute the GST liability [CGST & SGST or IGST, as the case may be] of 'Moon Plus' as also advise it as to whether it should issue one invoice for the entire contract value or separate State-wise invoices.

The other relevant information is given hereunder:

Table 1

States	Viewership figures of 'Moon Plus' channel in the last week of June 20XX as provided by the Broadcast Audience Research Council
A	50,000
B + C	1,00,000
D + E	50,000

Table 2

States	Population as per latest census (in crores)
A	50
B	180
C	20
D	100
E	25

The applicable rate of tax is as under:

CGST	SGST	IGST
9%	9%	18%

11. Pethalal has obtained registration in the current financial year in Uttar Pradesh. His turnover in the preceding financial year was ₹ 19,90,000. He has received the following amounts in respect of the activities undertaken by him in the month of September:

S. No.	Particulars	Amount (₹)
(i)	Funeral services	8,80,000
(ii)	Services of warehousing of jaggery	50,000
(iii)	Electrically operated buses given on hire to Municipal Corporation	5,00,000
(iv)	Service provided to recognized sports body as commentator	2,00,000
(v)	Commission received as an insurance agent from insurance company	65,000
(vi)	Commission received as business facilitator for the services provided to the urban branch of a nationalized bank with respect to savings bank accounts	15,000

(vii)	Security services (supply of security personnel) provided to Damodar Engineering College (DEC)* [registered under GST] for the security of the college premises *All the engineering courses run by DEC are recognised by the law [The All India Council for Technical Education (AICTE)]	28,000
-------	--	--------

Further, he has received following services in the month of September:

S. No.	Particulars	Amount (₹)
(a)	Freight paid to unregistered goods transport agency for his business activities relating to serial number (i) above	1,00,000
(b)	Legal advice received from M/s Kanoon Associates, a partnership firm, seeking advice in relation to a tax dispute of the business	50,000

All the transactions stated above are intra-State transactions and amounts given are exclusive of GST, wherever applicable.

You are required to calculate net GST payable by Pethalal for the month of September. There was no opening balance of input tax credit. Rate of CGST and SGST is 9% each for all the outward supplies made by Pethalal.

12. Arise India Pvt. Ltd., a company engaged in manufacturing of various goods, has its corporate office at Mumbai and manufacturing units in Pune and Chennai and service centres in Kolkata and Bengaluru. The manufacturing units at Pune and Chennai and service centres at Kolkata and Bengaluru are registered in Maharashtra, Tamil Nadu, West Bengal and Karnataka respectively. The corporate office is registered as an input service distributor. All the units and centres of Arise India Pvt. Ltd. are operational in the current year. The corporate office intends to distribute input tax credit (ITC) for the month of October 20XX. The following details are available for such distribution:

Table 1

Unit/centre	Turnover for the quarter ending September 20XX* (₹)	Eligible ITC on input services attributable to a specific unit/centre, for the month of October 20XX (₹)
Pune	20,00,000	IGST – ₹ 3,00,000; CGST – ₹ 30,000; SGST – ₹ 30,000
Chennai	30,00,000	IGST – ₹ 24,000; CGST – ₹ 6,000; SGST – ₹ 6,000
Kolkata	10,00,000	Nil
Bengaluru	40,00,000	Nil

*Note: Turnover excludes all taxes and duties

Table 2

S. No.	Particulars	CGST	SGST	IGST
(i)	Input services used by all units and centres			
(a)	Eligible ITC under the provisions of the GST law	1,20,000	1,20,000	2,40,000
(b)	Ineligible ITC in terms of section 17(5) of the CGST Act, 2017	40,000	40,000	80,000
(ii)	Inputs used by Pune unit and Kolkata centre	60,000	60,000	
(iii)	Input services used by Chennai unit and Bengaluru centre (ITC pertaining to such invoices is eligible ITC under the provisions of the GST law)	30,000	30,000	10,000

Chennai unit manufactures exempted products.

Compute the amount of ITC to be distributed to each of the units and centres.

13. Dushyant rents out a commercial building owned by him to Bharat for the month of December, for which he charges a rent of ₹19,50,000. Dushyant pays the maintenance charges of ₹ 1,00,000 (for the December month) as charged by the local society. These charges have been reimbursed to him by Bharat. Further, Bharat had given ₹ 2,50,000 to Dushyant as interest free refundable security deposit. Further, Dushyant has paid the municipal taxes of ₹ 2,85,000 which he has not charged from Bharat. You are required to determine the value of supply and the GST liability of Dushyant for the month of December assuming CGST and SGST rates to be 9% each.

Note: All the amounts given above are exclusive of GST.

14. Sacrosant Manufacturers Ltd., a manufacturer of bottle caps, is registered in Dhanbad (Jharkhand). It imports a bottle caps making machine from Japan.

Sacrosant Manufacturers Ltd. avails the services of Jhumroo Logistics, a licensed customs broker in Kolkata (West Bengal), in meeting all the legal formalities for getting the said machine cleared from the customs station.

Sacrosant Manufacturers Ltd. also authorises Jhumroo Logistics to incur, on its behalf, the expenses in relation to clearance of the imported machine from the customs station and bringing the same to its warehouse at Dhanbad. These expenses would be reimbursed by Sacrosant Manufacturers Ltd. to Jhumroo Logistics on actual basis. In addition, Sacrosant Manufacturers Ltd. will also pay the agency charges to Jhumroo Logistics for the services rendered by it.

Jhumroo Logistics raised an invoice in July as follows:

S.No.	Particulars	Amount* (₹)
(i)	Agency charges	5,00,000
(ii)	Customs duty on machine	3,80,000
(iii)	Port charges	33,000
(iv)	Dock dues	56,000
(v)	Charges for transport of machine from Kolkata port, West Bengal to Jhumroo Logistics' godown in Asansol, West Bengal	48,000
(vi)	Charges for transport of machine from Jhumroo Logistics' Asansol godown to the warehouse of Sacrosant Manufacturers Ltd. in Dhanbad, Jharkhand	67,000
(vii)	Unloading of machine at Kolkata port, West Bengal	83,000
(viii)	Hotel expenses	45,000
(ix)	Travelling expenses	50,000
(x)	Telephone expenses	2,000

*exclusive of GST, wherever applicable

Compute the value of supply made by Jhumroo Logistics with the help of given information. Would your answer be different if Jhumroo Logistics charges ₹ 13,00,000 as a lump sum consideration for clearing the imported machine from the customs station and bringing the same to the warehouse of Sacrosant Manufacturers Ltd.?

15. Inoba Bhavé is engaged in supply of taxable services. He supplies some services in the month of April and collects IGST of ₹ 15,50,000 on said supply on 18th April. However, he fails to pay the tax so collected within 30 days from the due date of payment of such tax.

No Show Cause Notice (SCN) has been issued to him so far. Inoba Bhavé decides to discharge his tax liability, before the SCN is issued to him. He is of the view that no penalty is leviable if the payment of tax is made before issue of SCN.

Therefore, he self-assesses his tax liability at ₹ 15,50,000 and pays the same on 26th June. Determine the interest and penalty, if any, payable by Inoba Bhavé.

16. Examine whether the offences committed in each of the following independent cases are bailable. Further, determine the quantum of punishment on prosecution under the CGST Act, 2017, in each of these cases:
- (i) 'Homi Gabha' collects ₹ 240 lakh as tax from its clients and deposits ₹ 150 lakh with the Central Government. Balance amount of tax is not paid to the Central

Government. It is found that he has falsified financial records and has not maintained proper records, to evade the tax.

- (ii) 'Datukeshwar Dutt' collects ₹ 630 lakh as tax from its clients, but deposits only ₹ 120 lakh with the Central Government. Balance amount of tax is not paid to the Central Government.

What would be the implications in above cases if 'Homi Gabha' and 'Datukeshwar Dutt' repeat the offences?

Note - It may be assumed that offences are proved in the court.

17. An international trade exhibition is going to be held in United States of America in January. Aayaat Niryat Export House (ANEH) has participated in it. It intends to send 100 units of taxable goods manufactured by it to USA for display in the said exhibition.

ANEH is of the view that the activity of sending the goods out of India for exhibition is a zero-rated supply. However, its tax advisor does not concur with its view. Examine whether the view of ANEH is correct.

Assuming that ANEH could not sell any goods at the exhibition and brings back entire 100 units to India (i) in February, (ii) in August,

Discuss the requirement to issue invoice, if any, in each of the above independent cases.

Would your answer be different if ANEH sells an aggregate of 65 units of the taxable goods in USA exhibition on different dates in January and remaining 35 units are brought back on 31st January. The tax advisor of ANEH advises ANEH that the export of 65 units qualify as zero-rated supply and it should apply for refund of the unutilized ITC in respect of the same. Examine the technical veracity of the tax advisor's advice.

18. Kankan Corp had imported a machine from USA for ₹ 365 lakh on payment of appropriate customs duty in February. However, in July, the machine had to be sent back to the supplier for repair (not amounting to manufacture) from the factory of Kankan Corp. This machine was repaired and thereafter, re-imported by Kankan Corp in November next year. The supplier has agreed to provide discount of 40% of the fair cost of repairs, resulting in Kankan Corp paying USD 12,000.

Following further particulars are available:

Particulars	Date	Rate of Duty	Inter Bank Exchange rate	Rate notified by CBEC
Bill of Entry	21 st February	12%	61.40	62
Aircraft arrival	26 th February	15%	62.50	63.25

Integrated tax is leviable @ 12%.

	Outwards (Amt. in ₹)	Inwards (Amt. in ₹)
Insurance	23,000	27,000
Air Freight	93,500	1,06,500

Determine total duty payable with appropriate notes for your computation assuming that Kankan Corp is not an EOU.

19. Mr. Samuel, a US resident aged 35 years, has come to India on a tourist visa for a month-long vacation. He carries with him, as part of baggage, the following:

Particulars	Value in ₹
Travel souvenirs	85,000
Other articles carried on in person	1,50,000
80 sticks of cigarettes of ₹ 100 each	8,000
30 cartridges of fire arms valuing ₹ 500 each	15,000
One litre wine	15,000

With reference to the Baggage Rules, 2016, determine whether Mr. Samuel will be required to pay any customs duty?

20. Whether all types of exports categories/sectors are eligible for duty credit scrip entitlement under Merchant Export from India Scheme (MEIS)? If your answer is no, give few examples of the export categories/sectors which are ineligible for duty credit scrip entitlement under MEIS.

Saksham exports a consignment of handicraft items through courier using e-commerce of free on board (FOB) value of ₹ 4,48,000. Determine whether the export consignment of Saksham is eligible for the MEIS benefit.

SUGGESTED ANSWERS

1. (i) (c); (ii) (b); (iii) (d); (iv) (a); (v) (c)
2. (i) (b); (ii) (b); (iii) (a); (iv) (a); (v) (d)
3. (d)
4. (b)
5. (a)
6. (a)
7. (d)
8. (c)

9. Computation of GST liability of Skylark Pvt. Ltd. for the month of August 20XX

S. No.	Particulars	Value (₹ in crores)	CGST @ 6% (₹ in crores)	SGST @ 6% (₹ in crores)	IGST@ 12% (₹ in crores)
Goods					
(i)	Export of goods to ABC Ltd. in UK under a letter of undertaking (LUT) [Note 1]	50			Nil
(ii)	Supply of goods to Shanghai Jianguo Trading Company Ltd. [Note 2]	10			1.20
(iii)	Goods supplied to DEF Pvt. Ltd. located in a SEZ [Note 3]	20			Nil
(iv)	Sale within the State [Note 4]	60.18	3.6108	3.6108	-
(v)	Sale outside the State [Note 4]	40.12			4.8144
(vi)	Stock transfer from Noida to Delhi [Note 5]	4.5			0.54
(vii)	Goods sent for sale on approval basis on 15 th February, 20XX [Note 6]	<u>4.00</u>			<u>0.48</u>
Total tax liability on goods [A]			3.6108	3.6108	7.0344
Services					
			CGST @ 9% (₹ in crores)	SGST @ 9% (₹ in crores)	IGST@ 18% (₹ in crores)
(i)	Export of services to Nepal under a LUT [Note 7]	30			Nil
(ii)	Receipts from renting of buildings [Note 8]	<u>0.15</u>	<u>0.0135</u>	<u>0.0135</u>	
Total tax liability on services [B]			0.0135	0.0135	
Neither goods nor services					
(i)	Sale of securities [Note 9]	45	Nil	Nil	Nil
(ii)	Goods procured from vendor in Japan and supplied to buyer in Thailand [Note 10]	0.50			Nil
Total tax liability on goods and services [(A) + (B)]			3.6243	3.6243	7.0344

Notes:

(1) As per section 2(5) of the IGST Act, 2017, export of goods means taking goods out of India to a place outside India. Receipt of consideration in foreign exchange is not a pre-requisite for export of goods. Export of goods is a zero rated supply in terms of section 16(1)(a) of the IGST Act, 2017. A zero rated supply is supplied without payment of tax under a LUT in terms of section 16(3)(a) of that Act.

(2) As per section 2(5) of the IGST Act, 2017, export of goods means taking goods out of India to a place outside India. Since, in the given case, the goods are being assembled in India (Gurugram, Haryana), the same are not exported.

Hence, the place of supply thereof will be governed by section 10 of the IGST Act, 2017 which prescribes the provisions for determining the place of supply of goods other than supply of goods imported into or exported from India. As per section 10(1)(d) of the IGST Act, 2017, where the goods are assembled or installed at site, the place of supply shall be the place of such installation or assembly. Therefore, in the given case, the place of supply will be Gurugram, Haryana.

Since the location of the supplier (Uttar Pradesh) and the place of supply (Haryana) are in two different States, the same is an inter-State supply liable to IGST [Section 7(1)(a) of the IGST Act, 2017 read with section 5(1) of that Act].

(3) As per section 7(5)(b) of the IGST Act, 2017, supply of goods and/or services to a special economic zone (SEZ) unit is treated to be a supply of goods and/or services in the course of inter-State trade or commerce. Therefore, supply of goods to a SEZ unit located within the same State shall be liable to IGST [Section 5(1) of the IGST Act, 2017].

Supply of goods and/or services to a SEZ unit is a zero rated supply in terms of section 16(1)(b) of the IGST Act, 2017. A zero rated supply is supplied without payment of tax under a LUT in terms of section 16(3)(a) of that Act.

(4) Remaining turnover will be calculated as under

$$₹ 256 \text{ crore} - (₹ 45 \text{ crore} + ₹ 50 \text{ crore} + ₹ 30 \text{ crore} + ₹ 10 \text{ crore} + ₹ 20 \text{ crore} + ₹ 0.50 \text{ crore} + ₹ 0.10 \text{ crore} + ₹ 0.05 \text{ crore} + ₹ 0.05 \text{ crore}) = ₹ 100.30 \text{ crore}$$

$$\text{Supply within the State} - ₹ 100.30 \text{ crore} \times 3/5 = ₹ 60.18$$

$$\text{Supply outside the State} - ₹ 100.30 \text{ crore} \times 2/5 = ₹ 40.12$$

Supply within the State is intra-State supply in terms of section 8(1) of IGST Act, 2017 and thus, chargeable to CGST and SGST. Supply outside the State is inter-State supply chargeable to IGST [Section 7(1) of IGST Act, 2017 read with section 5(1) of the said Act].

(5) As per section 25(4) of the CGST Act, 2017, a person who has obtained more than one registration, whether in one State or Union territory or more than one State or

Union territory shall, in respect of each such registration, be treated as 'distinct persons'.

Schedule I to the CGST Act, 2017 specifies situations where activities are to be treated as supply even if made without consideration. Supply of goods and/or services between 'distinct persons' as specified in section 25 of the CGST Act, 2017, when made in the course or furtherance of business is one such activity included in Schedule I under para 2.

In the given case-

- the location of the supplier is in Noida (Uttar Pradesh); and
- the place of supply is the location of such goods at the time at which the movement thereof terminates for delivery to the recipient i.e., Delhi, in terms of section 10(1)(a) of the IGST Act, 2017.

Therefore, the stock transfer by Noida office to Delhi branch is an inter-State supply as the location of the supplier and the place of supply are in two different States [Section 7(1)(a) of IGST Act, 2017]. Thus, the supply is leviable to IGST in terms of section 5(1) of the IGST Act, 2017.

Rule 28 of the CGST Rules, 2017 prescribes the provisions to determine the value of supply of goods or services or both between distinct or related persons, other than through an agent. Second proviso to the said rule lays down that where the recipient is eligible for full input tax credit, the value declared in the invoice shall be deemed to be the open market value of the goods or services. Therefore, the value of supply in this case will be ₹ 4.5 crore and open market value and cost of production of the goods will be irrelevant.

- (6) As per section 31(7) of the CGST Act, 2017, where the goods being sent or taken on approval for sale or return are removed before the supply takes place, the invoice shall be issued before or at the time of supply or six months from the date of removal, whichever is earlier.

In the given case, the time period of six months for goods sent on 15th February, 20XX expires on 15.08.20XX. Therefore, the invoice for the said goods shall be issued on 15.08.20XX and in terms of section 12(2)(a) of the CGST Act, 2017 read with *Notification No. 66/2017 CT dated 15.11.2017*, this date would also be the time of supply of such goods. Thus, such goods will be liable to tax in the month of August 20XX. Goods sent in the month of January would have been taxed in the month of July and goods sent in the month of March would be taxed in the month of September.

Here,

- the location of the supplier is in Noida (Uttar Pradesh); and

- the place of supply is the location of the goods at the time at which the movement thereof terminates for delivery to the recipient i.e., Haryana in terms of section 10(1)(a) of the IGST Act, 2017.

Since the location of the supplier (Uttar Pradesh) and the place of supply (Haryana) are in two different States, the same is an inter-State supply liable to IGST [Section 7(1)(a) of the IGST Act, 2017 read with section 5(1) of that Act].

- (7) The given case is an export of service as per section 2(6) of the IGST Act, 2017, as-
- (i) the supplier of service is located in India (Noida);
 - (ii) the recipient of service is located outside India (Nepal);
 - (iii) the place of supply of service is outside India (Place of supply of consulting service will be the location of recipient, i.e. Nepal);
 - (iv) the payment for such service has been received by the supplier of service in convertible foreign exchange or in Indian rupees wherever permitted by the Reserve Bank of India (Receipt of export consideration in Indian rupees is permitted by RBI in the given case); and
 - (v) the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in section 8.

Export of services is a zero rated supply in terms of section 16(1)(a) of the IGST Act, 2017. A zero rated supply is supplied without payment of tax under a LUT in terms of section 16(3)(a) of that Act.

- (8) Letting out of the building including a commercial, industrial or residential complex for business or commerce, either wholly or partly, is a supply of service in terms of para 2(b) of the Schedule II to the CGST Act, 2017. Services by way of renting of residential dwelling for use as residence is exempt from tax [Notification No. 12/2017 CT (R) dated 28.06.2017]. Therefore, rent of ₹ 10 lakh received from letting out of building for printing press will be liable to tax and rent of ₹ 5 lakh received from letting out of building for residential purposes will be exempt from tax.

Further, services by way of loading, unloading, packing, storage or warehousing of agricultural produce is exempt from tax [Notification No. 12/2017 CT (R) dated 28.06.2017]. However, in the given case, the Cold Storage Operator and not Skylark Pvt. Ltd. is engaged in warehousing of agricultural produce. Therefore, the Cold Storage Operator providing warehousing services for potatoes, being an agricultural produce, will be eligible for such exemption and services provided by Skylark Pvt. Ltd., being services of renting of immovable property (₹ 5 lakh), will be liable to tax.

In case of letting out of first and third buildings,

- the location of the supplier is in Noida (Uttar Pradesh); and
- the place of supply is the location of the immovable property, i.e. Noida in terms of section 12(3)(a) of the IGST Act, 2017.

Since the location of the supplier (Uttar Pradesh) and the place of supply (Noida) are in the same State, the same is an intra-State supply in terms of section 8(1) of the IGST Act, 2017 and is thus, liable to CGST and SGST.

- (9) GST is leviable on supply of goods and/or services [Section 9(1) of the CGST Act, 2017]. Securities are specifically excluded from the definition of goods and services as provided under clause (52) and clause (102) respectively of section 2 of the CGST Act, 2017. Therefore, sale of securities will not be liable to GST.
- (10) Paragraph 7 of the Schedule III to CGST Act, 2017 provides that supply of goods from a place in the non-taxable territory to another place in the non-taxable territory without such goods entering into India (third country shipments) is treated neither as a supply of goods nor a supply of services. Thus, there is no GST liability on such sales. Further, since such goods do not enter India at any point of time, customs duty and IGST leviable on imported goods will also not be leviable on such goods.
10. As per section 12(14) of the IGST Act, 2017, the place of supply of advertisement services to the Central Government, a State Government, a statutory body or a local authority meant for the States or Union territories identified in the contract or agreement is taken as being in each of such States or Union territories (where the advertisement is broadcasted/ run /played/disseminated).

Therefore, in the given case, the place of supply of advertisement service is in the States of 'A', 'B', 'C', 'D' and 'E'.

The value of the supply of such advertisement services specific to each State/Union territory is in proportion to the amount attributable to the services provided by way of dissemination in the respective States/Union territories determined in terms of the contract or agreement entered into in this regard.

In the absence of such a contract or agreement between the supplier and recipient of services, the proportionate value of advertisement services attributable to different States/Union territories (where the advertisement is broadcasted/run/played/disseminated) is computed in accordance with rule 3 of the IGST Rules, 2017.

As per rule 3(f) of the IGST Rules, 2017, in the case of advertisement on television channels, the amount attributable to the value of advertisement service disseminated in a State shall be calculated on the basis of the viewership of such channel in such State, which in turn, shall be calculated in the following manner, namely: -

- (i) the channel viewership figures for that channel for a State or Union territory shall be taken from the figures published in this regard by the Broadcast Audience Research Council;
- (ii) the figures published for the last week of a given quarter shall be used for calculating viewership for the succeeding quarter;
- (iii) where such channel viewership figures relate to a region comprising of more than one State or Union territory, the viewership figures for a State or Union territory of that region, shall be calculated by applying the ratio of the populations of that State or Union territory, as determined in the latest Census, to such viewership figures;
- (iv) the ratio of the viewership figures for each State or Union territory as so calculated, when applied to the amount payable for that service, shall represent the portion of the value attributable to the dissemination in that State or Union territory.

Therefore, value of supply attributable to 'A', 'B', 'C', 'D' and 'E', will be computed as under:

States	Viewership figures of 'Moon Plus' channel as provided by the Broadcast Audience Research Council in the last week of June 20XX	Viewership ratio of 'Moon Plus' channel in the States 'A', ('B' + 'C') and ('D' + 'E')	Proportionate value of advertisement services for States 'A', ('B' + 'C') and ('D' + 'E')
A	50,000	50,000: 1,00,000: 50,000 = 1:2:1	₹ 10,00,000 x 1/4 = ₹ 2,50,000
B + C	1,00,000		₹ 10,00,000 x 2/4 = ₹ 5,00,000
D + E	50,000		₹ 10,00,000 x 1/4 = ₹ 2,50,000

States	Population as per latest census (in crores)	Population ratio in the States 'B' & 'C' and 'D' & 'E'	Proportionate value of advertisement services in the States 'A', 'B', 'C', 'D' & 'E'
A	50	B:C = 180:20 = 9:1	₹ 2,50,000
B	180		₹ 5,00,000 x 9/10 = ₹ 4,50,000
C	20	D:E = 100:25 = 4:1	₹ 5,00,000 x 1/10 = ₹ 50,000
D	100		₹ 2,50,000 x 4/5 = ₹ 2,00,000
E	25		₹ 2,50,000 x 1/5 = ₹ 50,000

Since, there are five different places of supply in the given case, 'Moon Plus' channel will have to issue five separate invoices for each of the States namely, 'A', 'B', 'C', 'D' & 'E' indicating the value pertaining to that State. The GST liability of 'Moon Plus' channel will, therefore, be worked out as under:

Computation of GST liability of 'Moon Plus'

States	Proportionate value of advertisement services (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
A	2,50,000	22,500	22,500	
B	4,50,000			81,000
C	50,000			9,000
D	2,00,000			36,000
E	50,000			9,000

Only in case of supply of services in State 'A', the location of supplier (State 'A') and the place of supply are in the same State, hence the same is an intra-State supply in terms of section 8(1) of the IGST Act, 2017 and is thus, liable to CGST and SGST. In all the remaining cases of supply of services, the location of the supplier (State 'A') and the places of supply (States 'B', 'C', 'D' & 'E') are in two different States, hence the same are inter-State supplies liable to IGST [Section 7(1)(a) of the IGST Act, 2017 read with section 5(1) of that Act].

11. Computation of net GST payable by Pethalal

Particulars	Amount (₹)	CGST (₹)	SGST (₹)
<u>Supplies on which Pethalal is liable to pay GST under forward charge</u>			
Funeral services [Note 1]	8,80,000		
Services of warehousing of jaggery [Note 2]	50,000		
Services by way of giving on hire electrically operated buses to Municipality [Note 3]	5,00,000		
Service provided to recognized sports body as commentator [Note 4]	2,00,000	= 2,00,000 × 9% = 18,000	= 2,00,000 × 9% = 18,000
Commission received as an insurance agent from insurance company [Note 5]	65,000		
Commission received as business facilitator	15,000		

for the services provided to the urban branch of a nationalised bank with respect to savings bank accounts [Note 6]			
Security services (supply of security personnel) provided to DEC for the security of the college premises [Note 7]	28,000		
Value of taxable supply	2,00,000		
Total tax liability on outward supplies (A)		18,000	18,000
<u>Supplies on which Pethalal is liable to pay GST under reverse charge</u>			
Services received from GTA [Note 8]	1,00,000	= 1,00,000 × 2.5% = 2,500	= 1,00,000 × 2.5% = 2,500
Legal services received [Note 9]	50,000		
Value of taxable supply	1,00,000		
Total tax liability on inward supplies under reverse charge (B) - payable in cash [Note 10]		2,500	2,500
ITC available on input services [Note 8]		Nil	Nil
Net GST payable (A) + (B)		20,500	20,500

Notes:

- (1) Funeral services being covered in entry 4 of Schedule III to the CGST Act, 2017 are not a supply and thus, are outside the ambit of GST.
- (2) Services by way of storage/ warehousing of, *inter alia*, jaggery are exempt from GST vide Exemption *Notification No. 12/2017 CT(R) dated 28.06.2017* (hereinafter referred to as exemption notification). Thus, services of warehousing of jaggery are exempt.
- (3) Services by way of giving on hire to a local authority, an Electrically operated vehicle (EOV) meant to carry more than 12 passengers are exempt vide exemption notification. Buses are EOVs meant to carry more than 12 passengers. Hence, services of giving electrically operated buses on hire to Municipal Corporation are exempt from GST.
- (4) Services provided to a recognized sports body by an individual only as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from GST vide exemption notification. Thus, service provided as commentator is liable to GST.
- (5) Though commission for providing insurance agent's services to any person carrying on insurance business is liable to GST, the tax payable thereon is to be paid by the

recipient of service i.e., insurance company, under reverse charge in terms of Notification No. 13/2017 CT(R) dated 28.06.2017 (hereinafter referred to as reverse charge notification). Thus, Pethalal will not be liable to pay GST on such commission.

- (6) Services provided by a business facilitator to a banking company with respect to accounts in its rural area branch are exempt from GST vide exemption notification. Thus, services provided by him in respect of urban area branch of the bank will be taxable. However, the tax payable thereon is to be paid by the recipient of service i.e., banking company, under reverse charge in terms of reverse charge notification. Hence, Pethalal will not liable to pay GST on commission received for said services.
- (7) Services provided to an educational institution, by way of security services performed in such educational institution are exempt from GST only when said services are provided to an institution providing services by way of pre-school education and education up to higher secondary school or equivalent, vide exemption notification. Thus, in the given case, security services provided to DEC are not exempt. Further, the tax on security services (supply of security personnel) provided by any person other than a body corporate to a registered person is payable by the recipient of service under reverse charge in terms of reverse charge notification. Hence, Pethalal will not be liable to pay GST in the given case.
- (8) GST on services provided by a GTA (not paying tax @ 12%) to, *inter alia*, a registered person is payable by the recipient of service i.e., the registered person, under reverse charge in terms of reverse charge notification. Since in the given case, GTA is unregistered, Pethalal is liable to pay tax under reverse charge @ 5% (CGST @ 2.5% and SGST @ 2.5%). Further, since said input services are being exclusively used for effecting non-taxable supplies [funeral services], input tax credit of the GST paid on the same will not be available.
- (9) Legal services provided by a partnership firm of advocates to a business entity (with an aggregate turnover up to such amount in the preceding FY as makes it eligible for exemption from registration under the CGST Act, 2017) are exempt from GST vide exemption notification. Since the aggregate turnover of Pethalal did not exceed ₹ 20 lakh [the applicable threshold limit for registration for Pethalal being a supplier of services] in the preceding FY, legal services received by him are exempt from GST.
- (10) 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.
- (11) Since all the transactions given hereunder are intra-State, CGST and SGST are payable in terms of section 9(1) of the CGST Act, 2017

12. Computation of ITC to be distributed by ISD

S. No.	Particulars	Pune unit (₹)	Chennai unit (₹)	Kolkata centre (₹)	Bengaluru centre (₹)
(i)	IGST credit of ₹ 3,00,000, CGST credit of ₹ 30,000 and SGST credit of ₹ 30,000 specifically attributable to Pune unit [Note 1]	3,00,000 (IGST) 30,000 (CGST) 30,000 (SGST)			
(ii)	IGST credit of ₹ 24,000, CGST credit of ₹ 6,000 and SGST credit of ₹ 6,000 specifically attributable to Chennai unit [Note 2]		36,000 (IGST)		
(iii)	Eligible ITC pertaining to input services used by all units and centres [Note 3]	24,000 (CGST) 24,000 (SGST) 48,000 (IGST)	1,44,000 (IGST)	48,000 (IGST)	1,92,000 (IGST)
(iv)	Ineligible ITC pertaining to input services used by all units and centres [Note 4]	8,000 (CGST) 8,000 (SGST) 16,000 (IGST)	48,000 (IGST)	16,000 (IGST)	64,000 (IGST)
(v)	Inputs used by Pune unit and Kolkata centre [Note 5]	Nil	Nil	Nil	Nil
(vi)	Input services used by Chennai unit and Bengaluru centre [Note 6]		30,000 (IGST)		40,000 (IGST)

Notes:

- (1) IGST credit of ₹ 3,00,000, CGST credit of ₹ 30,000 and SGST credit of ₹ 30,000 specifically attributable to Pune unit will be distributed as IGST credit of ₹ 3,00,000, CGST credit of ₹ 30,000 and SGST credit of ₹ 30,000 respectively, only to Pune

unit, since recipient is located in the same State in which ISD is located [Section 20(2)(c) of the CGST Act, 2017 read with clauses (e) & (f)(i) of sub-rule (1) of rule 39 of the CGST Rules, 2017].

- (2) Total GST credit (CGST+ SGST + IGST) of ₹ 36,000 specifically attributable to Chennai unit will be distributed as IGST credit of ₹ 36,000, only to Chennai unit, since recipient and ISD are located in different States [Section 20(2)(c) of the CGST Act, 2017 read with clauses (e) & (f)(ii) of sub-rule (1) of rule 39 of the CGST Rules, 2017].
- (3) Eligible ITC of CGST [₹ 1,20,000], SGST [₹ 1,20,000] and IGST [₹ 2,40,000] will be distributed among the units and centres in the ratio of their turnover of the last quarter [Section 20(2)(e) of the CGST Act, 2017 read with clause (a)(ii) of the explanation to the said section and rule 39(1)(b) of the CGST Rules, 2017].

Ratio of the turnover of the units and centres in last quarter, previous to the month during which ITC is to be distributed:

= 20 lakh : 30 lakh : 10 lakh : 40 lakh

= 2: 3: 1: 4

Therefore,

Pune unit will get - ₹ 24,000 [$1,20,000 \times (2/10)$] as CGST credit, ₹ 24,000 [$1,20,000 \times (2/10)$] as SGST credit and ₹ 48,000 [$2,40,000 \times (2/10)$] as eligible IGST credit [Clauses (e) & (f)(i) of sub-rule (1) of rule 39 of the CGST Rules, 2017].

Chennai unit will get - ₹ 1,44,000 [$₹ 4,80,000^1 \times (3/10)$] as IGST credit [Clauses (e) & (f)(ii) of sub-rule (1) of rule 39 of the CGST Rules, 2017]. The credit attributable to a recipient is distributed even if such recipient is making exempt supplies [Clause (d) of sub-rule (1) of rule 39 of the CGST Rules, 2017].

Kolkata centre will get - ₹ 48,000 [$₹ 4,80,000 \times (1/10)$] as IGST credit [Clauses (e) & (f)(ii) of sub-rule (1) of rule 39 of the CGST Rules, 2017].

Bengaluru will get - ₹ 1,92,000 [$₹ 4,80,000 \times (4/10)$] as IGST credit [Clauses (e) & (f)(ii) of sub-rule (1) of rule 39 of the CGST Rules, 2017].

- (4) Ineligible ITC of CGST [₹ 40,000], SGST [₹ 40,000] and IGST [₹ 80,000] will also be distributed among the units and centres in the ratio of their turnover of the last quarter [Section 20(2)(e) of the CGST Act, 2017 read with clause (a)(ii) of the explanation to the said section and rule 39(1)(b) of the CGST Rules, 2017].

Ratio of the turnover of the units and centres in last quarter, previous to the month during which ITC is to be distributed:

= 20 lakh : 30 lakh : 10 lakh : 40 lakh

¹ ₹ 1,20,000 + ₹ 1,20,000 + ₹ 2,40,000

= 2: 3: 1: 4

Therefore,

Pune unit will get - ₹ 8,000 [40,000 x (2/10)] as CGST credit, ₹ 8,000 [40,000 x (2/10)] as SGST credit and ₹ 16,000 [80,000 x (2/10)] as eligible IGST credit.

Chennai unit will get – ₹ 48,000 [₹ 1,60,000 x (3/10)] as IGST credit.

Kolkata centre will get - ₹ 16,000 [₹ 1,60,000 x (1/10)] as IGST credit.

Bengaluru will get - ₹ 64,000 [₹ 1,60,000 x (4/10)] as IGST credit.

- (5) ISD mechanism is meant only for distributing the credit on common invoices pertaining to input services only and not goods (inputs or capital goods).
- (6) Eligible ITC of CGST [₹ 30,000], SGST [₹ 30,000] and IGST [₹ 10,000] will be distributed among the Chennai unit and Bengaluru centre in the ratio of their turnover of the last quarter [Section 20(2)(d) of the CGST Act, 2017 read with clause (a)(ii) of the explanation to the said section and rule 39(1)(b) of the CGST Rules, 2017].

Ratio of the turnover of the Chennai unit and Bengaluru centre in last quarter, previous to the month during which ITC is to be distributed:

= 30 lakh : 40 lakh

= 3 : 4

Therefore,

Chennai unit will get – ₹ 30,000 [₹ 70,000 x (3/7)] as IGST credit.

Bengaluru unit will get – ₹ 40,000 [₹ 70,000 x (4/7)] as IGST credit.

13. Computation of the value of supply and the GST liability of Dushyant for the month of December

Particulars	Amount (₹)
Rent of the commercial building	19,50,000
Maintenance charges paid to the local society, reimbursed by Bharat [Being reimbursed by the tenant - Bharat, such charges ultimately form part of the rent paid by Bharat to Dushyant and thus, will form part of the value]	1,00,000
Interest free refundable security deposit [Being refundable, the security deposit does not constitute consideration in terms of section 2(31) of the CGST Act, 2017 and thus, is not includible in the value]	Nil
Municipal taxes paid by Dushyant	<u>Nil</u>

[Being an expenditure incurred by the supplier, the same is not includible in the value since such taxes are not charged to the recipient.]	
Value of supply	20,50,000
CGST @ 9%	1,84,500
SGST @ 9%	1,84,500

14. As per explanation to rule 33 of the CGST Rules, 2017, a “**pure agent**” means a person who-
- enters into a contractual agreement with the recipient of supply to act as his pure agent to incur expenditure or costs in the course of supply of goods or services or both;
 - neither intends to hold nor holds any title to the goods or services or both so procured or supplied as pure agent of the recipient of supply;
 - does not use for his own interest such goods or services so procured; and
 - receives only the actual amount incurred to procure such goods or services in addition to the amount received for supply he provides on his own account.

The supplier needs to fulfil **ALL** the above conditions in order to qualify as a pure agent.

In the given case, Jhumroo Logistics has been authorised by the recipient of supply - Sacrosant Manufacturers Ltd. - to incur, on its behalf, the expenses incurred in relation to clearance of the imported machine from the customs station and bringing the same to the warehouse of the recipient, i.e. expenses mentioned in S.No. (ii) to (vii). Further, Jhumroo Logistics does not hold any title to said services and does not use them for his own interest.

Lastly, Jhumroo Logistics receives only the actual amount incurred to procure such services in addition to agency charges. Thus, Jhumroo Logistics qualifies as a pure agent.

Further, rule 33 of the CGST Rules, 2017 stipulates that notwithstanding anything contained in the provisions of Chapter IV – Determination of Value of Supply, the expenditure or costs incurred by a supplier as a pure agent of the recipient of supply shall be excluded from the value of supply, if all the following conditions are satisfied, namely-

- the supplier acts as a pure agent of the recipient of the supply, when he makes the payment to the third party on authorisation by such recipient;
- the payment made by the pure agent on behalf of the recipient of supply has been separately indicated in the invoice issued by the pure agent to the recipient of service; and

(III) the supplies procured by the pure agent from the third party as a pure agent of the recipient of supply are in addition to the services he supplies on his own account.

Since conditions (I) to (III) mentioned above are satisfied in the given case, expenses (ii) to (vii) incurred by Jhumroo Logistics as a pure agent of Sacrosant Manufacturers Ltd. shall be excluded from the value of supply.

Accordingly, value of supply made by Jhumroo Logistics will be computed as under:

Particulars	Amount (₹)
Agency charges	5,00,000
Add: Customs duty	Nil
Add: Port charges	Nil
Add: Dock charges	Nil
Add: Charges for transport of machine from Kolkata port, West Bengal to its Jhumroo Logistics' godown in Asansol, West Bengal	Nil
Add: Charges for transport of machine from Jhumroo Logistics' Asansol godown to the warehouse of Sacrosant Manufacturers Ltd.in Dhanbad, Jharkhand	Nil
Add: Unloading of machine at Kolkata port, West Bengal	Nil
Add: Hotel expenses	45,000
Add: Travelling expenses	50,000
Add: Telephone expenses	<u>2,000</u>
Value of supply	5,97,000

However, if Jhumroo Logistics charges ₹ 13,00,000 as a lump sum consideration for getting the imported machine cleared from the customs station and bringing the same to the warehouse of Sacrosant Manufacturers Ltd., Jhumroo Logistics would incur expenses (ii) to (vii) for its own interest (as the agreement requires it to get the imported machine cleared from the customs station and bring the same to the Sacrosant Manufacturers Ltd.'s warehouse). Thus, Jumroo Logistics would not be considered as a pure agent of Sacrosant Manufacturers Ltd. for said services.

Consequently, in that case, value of supply will be ₹ 13,00,000 in terms of section 15 of the CGST Act, 2017.

15. Due date for payment of tax collected on 18th April is 20th May. However, since tax is actually paid on 26th June, interest @ 18% p.a. is payable for the period for which the tax remains unpaid [37 days] in terms of section 50 of CGST Act, 2017 read with *Notification No. 13/2017 CT dated 28.06.2017*. Amount of interest is:

$$= ₹ 15,50,000 \times 18\% \times 37/365 = ₹ 28,282 \text{ (rounded off)}$$

As per section 73(11) of the CGST Act, 2017, where self-assessed tax/any amount collected as tax is not paid within 30 days from due date of payment of tax, then, *inter alia*, option to pay such tax before issuance of SCN to avoid penalty, is not available.

Consequently, penalty equivalent to

- (i) 10% of tax, viz., ₹ 1,55,500 or
- (ii) ₹ 10,000,

whichever is higher,

is payable in terms of section 73(9) of the CGST Act, 2017. Therefore, penalty of ₹ 1,55,500 will have to be paid by Inoba Bhawe.

16. (i) As per section 132(1)(d)(iii) of the CGST Act, 2017, failure to pay any amount collected as tax beyond 3 months from due date of payment is punishable with specified imprisonment and fine provided the amount of tax evaded exceeds at least ₹ 100 lakh. Therefore, failure to deposit ₹ 90 lakh (₹ 240 lakh - ₹ 150 lakh) collected as tax by 'Homi Gabha' will not be punishable with imprisonment.

However, falsification of financial records by 'Homi Gabha' is punishable with imprisonment up to 6 months or with fine or both vide section 132(1)(f)(iv) of the CGST Act, 2017 and the said offence is bailable in terms of section 132(4) of the CGST Act, 2017.

- (ii) Failure to pay any amount collected as tax beyond 3 months from due date is punishable with imprisonment upto 5 years and with fine, if the amount of tax evaded exceeds ₹ 500 lakh in terms of section 132(1)(d)(i) of the CGST Act, 2017.

Since the amount of tax evaded by 'Datukeshwar Dutt' exceeds ₹ 500 lakh (₹ 630 lakh - ₹ 120 lakh = ₹ 510 lakh), 'Datukeshwar Dutt' is liable to imprisonment upto 5 years and with fine. Further, the imprisonment shall be minimum 6 months in the absence of special and adequate reasons to the contrary to be recorded in the judgment [Section 132(3) of the CGST Act, 2017]. Such offence is non-bailable in terms of section 132(5) of the CGST Act, 2017.

If 'Homi Gabha' and 'Datukeshwar Dutt' repeat the offence, they shall be punishable for second and for every subsequent offence with imprisonment upto 5 years and with fine in terms of section 132(2) of the CGST Act, 2017. Such imprisonment shall also be for minimum 6 months in the absence of special and adequate reasons to the contrary to be recorded in the judgment.

17. No, the view of ANEH that the activity of sending the goods out of India for exhibition is a zero-rated supply, is not correct. As per section 7 of the CGST Act, for any activity or transaction to be considered a supply, it must satisfy twin tests namely-

- (i) it should be for a consideration by a person; and
- (ii) it should be in the course or furtherance of business.

The exceptions to the above are the activities enumerated in Schedule I of the CGST Act which are treated as supply even if made without consideration. Further, section 2(21) of the IGST Act defines “supply”, wherein it is clearly stated that it shall have the same meaning as assigned to it in section 7 of the CGST Act.

Section 16 of the IGST Act defines “zero rated supply” as any of the following supplies of goods or services or both, namely:–

- (a) export of goods or services or both; or
- (b) supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.

Thus, only such “supplies” which are either “export” or are “supply to SEZ unit/ developer” would qualify as zero-rated supply.

In view of the above provisions, *Circular No. 108/27/2019 GST dated 18.07.2019* clarified that the activity of sending/ taking the goods out of India for exhibition or on consignment basis for export promotion, except when such activity satisfy the tests laid down in Schedule I of the CGST Act, do not constitute supply as the said activity does not fall within the scope of section 7 of the CGST Act as there is no consideration at that point in time. Since such activity is not a supply, the same cannot be considered as “zero rated supply” as per the provisions contained in section 16 of the IGST Act.

The said circular further clarified that the activity of sending/taking goods out of India for exhibition is in the nature of “**sale on approval basis**” wherein the goods are sent/ taken outside India for the approval of the person located abroad and it is only when the said goods are approved that the actual supply from the exporter located in India to the importer located abroad takes place.

The activity of sending/ taking specified goods is covered under the provisions of section 31(7) of the CGST Act, 2017 read with rule 55 of CGST Rules, 2017. As per said provisions, in case of the goods being sent or taken on approval for sale, the invoice shall be issued before/at the time of supply or 6 months from the date of removal, whichever is earlier. The goods which are taken for supply on approval basis can be moved from the place of business of the registered supplier to another place within the same State or to a place outside the State on a delivery challan.

In view of the said provisions, ANEH is not required to issue invoice at the time of taking the goods out of India since the activity of merely sending/ taking the taxable goods out of India is not a supply. However, the goods shall be accompanied with a delivery challan. Further,

- (i) In case the entire quantity of goods (100 units) sent to USA is not sold but brought back by ANEH in February, i.e. within the stipulated period of 6 months from the date of removal, no tax invoice is required to be issued as no supply has taken place in such a case.

- (ii) In case, the entire quantity of goods (100 units) sent to USA is not sold and brought back by ANEH in August, i.e. after 6 months from the date of removal, a tax invoice is required to be issued for entire 100 units of taxable goods in accordance with the provisions contained in section 12 [determining time of supply of goods] and section 31 [tax invoice] of the CGST Act, 2017 read with rule 46 [tax invoice] of the CGST Rules, 2017 within the time period stipulated under section 31(7) of the CGST Act, 2017.

However, if an aggregate of 65 units of the goods are sold in USA exhibition by ANEH on different dates in January (i.e. within the stipulated period of 6 months), a tax invoice would be required to be issued for these units, at the time of each of these sales, in accordance with the provisions contained in section 12 and section 31 of the CGST Act read with rule 46 of the CGST Rules. When the goods are sold in exhibition, actual supply from the exporter in India to the importer located abroad takes place and this supply qualifies as export. Export of goods is a zero-rated supply in terms of section 16(1)(a) of the IGST Act, 2017.

If the remaining 35 units are brought back on 31st January, i.e. within the stipulated period of 6 months from the date of removal, no tax invoice is required to be issued as no supply has taken place in such a case.

Further, tax advisor's advice is technically correct. Since the activity of sending / taking specified goods out of India is not a zero-rated supply, execution of a bond/Letter of Undertaking (LUT), as required under section 16 of the IGST Act, is not required.

However, the sender can prefer refund claim even when the specified goods were sent / taken out of India without execution of a bond/LUT, if he is otherwise eligible for refund as per the provisions contained in section 54(3) of the CGST Act, 2017 read with rule 89(4) of the CGST Rules, 2017 in respect of zero-rated supply of 65 units.

18. *Notification No. 45/2017 Cus. dated 30.06.2017* stipulates that in case of re-importation of goods exported for repairs, duty is payable on fair cost of repairs carried out, insurance and freight charges - both ways, subject to fulfillment of following conditions:-
- The time limit for re-importation is 3 years
 - The exported goods and the re-imported goods must be the same.
 - The ownership of the goods should not have changed.

Since all the specified conditions are fulfilled in the given case, total duty payable will be computed as under:-

Computation of total duty payable by Kankan Corp.

Particulars	
Fair cost of repairs (in dollars) = \$12,000/40%	\$ 30,000
	₹
Fair cost of repairs (in rupees)	18,60,000.00

= \$30,000 × ₹ 62 [Note-1]	
Add: Inward and outward insurance [₹ 23,000 + ₹ 27,000]	50,000.00
Add: Inward and outward air freight [₹ 93,500 + ₹ 1,06,500]	<u>2,00,000.00</u>
Assessable Value	21,10,000.00
Add: Basic customs duty (BCD) @15% [Note-2]	3,16,500.00
Add: Social Welfare Surcharge @ 10% of BCD	<u>31,650.00</u>
Value for computing IGST	24,58,150.00
IGST @ 12%	2,94,978.00
Total duty and tax payable	6,43,128
= [₹ 3,16,500 + ₹ 31,650 + ₹ 2,94,978]	

Notes:-

1. Rate of exchange notified by the CBEC on date of presentation of bill of entry would be the applicable rate in terms of third proviso to section 14(1) of the Customs Act, 1962.
 2. Rate of duty is the rate in force on date of presentation of bill of entry or arrival of aircraft, whichever is later in terms of proviso to section 15(1) of the Customs Act, 1962.
19. As per rule 3 of Baggage Rules, 2016, tourist of foreign origin, excluding infant, is allowed duty free clearance of
- (i) travel souvenirs; and
 - (ii) Articles up to the value of ₹ 15,000 (excluding, inter alia, cigarettes exceeding 100 sticks, cartridges of fire arms exceeding 50 and alcoholic liquor or wines in excess of two litres), if carried on in person.

Further, any article the value of which exceeds the duty free allowance admissible to such passenger or member under the Baggage Rules, 2016, is chargeable to customs duty @ 35% [Notification No. 26/2016 Cus. dated 31.03.2016]. The effective rate of duty becomes 38.5% after including social welfare surcharge @ 10% on customs duty.

Accordingly, the customs duty payable by Mr. Samuel will be calculated as under:

Computation of customs duty payable	₹
Travel souvenir	Nil
Articles carried on in person	1,50,000
Cigarettes [Since the number of cigarettes does not exceed 100, the same will be covered within the scope of rule 3 of Baggage Rules, 2016 and thus, be eligible for general free allowance (GFA) or concessional rate of duty applicable to baggage vide Notification No. 26/2016 Cus. dated 31.03.2016, as the case may be.]	8,000

Fire arms cartridge [Since the number of fire arms cartridge does not exceed 50, the same will be covered within the scope of rule 3 of Baggage Rules, 2016 and thus, be eligible for GFA or concessional rate of duty applicable to baggage vide <i>Notification No. 26/2016 Cus. dated 31.03.2016</i> , as the case may be.]	<u>15,000</u>
One litre of wine [Since the quantity of wine does not exceed 2 litres, the same will be covered within the scope of rule 3 of Baggage Rules, 2016 and thus, be eligible for GFA or concessional rate of duty applicable to baggage vide <i>Notification No. 26/2016 Cus. dated 31.03.2016</i> , as the case may be.]	<u>15,000</u>
Baggage within the scope of rule 3 of Baggage Rules, 2016	1,88,000
Less: GFA	<u>15,000</u>
Baggage on which duty is payable	1,73,000
Customs duty payable @ 38.5%	<u>66,605</u>

20. No, all types of exports categories/sectors are not eligible for duty credit scrip entitlement under Merchant Export from India Scheme (MEIS).

A few of the ineligible exports categories/sectors under MEIS are listed below:

- (i) Supplies made from domestic tariff area (DTA) units to special economic zone (SEZ) units
- (ii) Exports through transshipment, i.e., exports that are originating in third country but transshipped through India
- (iii) Deemed exports
- (iv) SEZ /export oriented undertaking (EOU) /electronic hardware technology park (EHTP) /bio technology park (BTP) /free trade warehousing zone (FTWZ) products exported through domestic tariff area units
- (v) Export products which are subject to minimum export price or export duty
- (vi) Exports made by units in FTWZ.

Export of handicraft items through courier, using e-commerce, of free on board (FOB) value up to ₹ 5,00,000 per consignment is entitled for rewards under MEIS.

Therefore, the entire consignment of handicraft items exported by Saksham (FOB value ₹ 4,48,000) is eligible for MEIS benefit.