

**MOCK TEST PAPER – 1**  
**FINAL COURSE (OLD): GROUP – II**  
**PAPER – 5: ADVANCED MANAGEMENT ACCOUNTING**

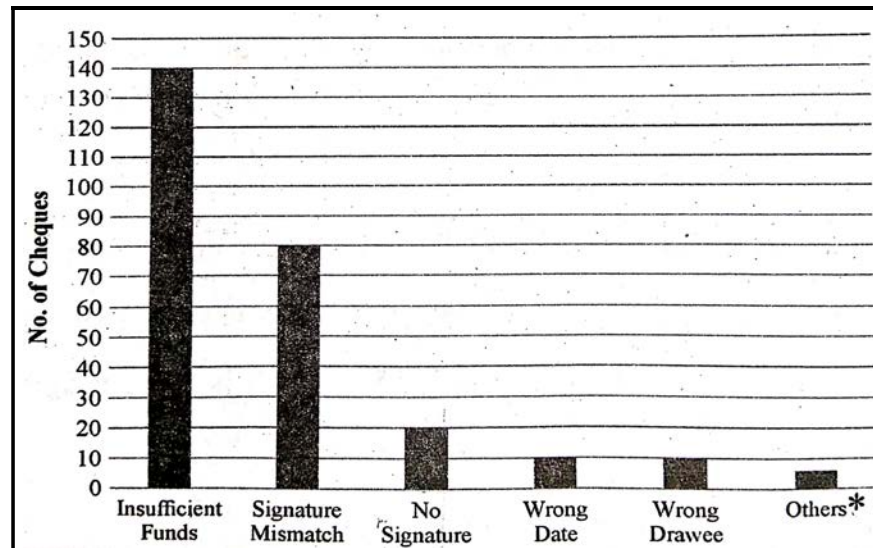
*Question No. 1 is compulsory*  
*Answer any **five** questions from the remaining **six** questions*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. (a) Sure Finance Limited offers retail customer finance products. The problem of inadequate recoveries has to be tackled and therefore the problem of dishonour of cheques received from customers needs to be analysed. The results are shown in the preliminary Pareto Chart below:

Problems with cheques received in 12 months' period.



\* 'Others' are half the number for 'Wrong Drawee'

**Required**

- (i) Construct a frequency table showing the defect types and the corresponding number of items and their defect percentage for constructing the Pareto Chart for defect types.
- (ii) To what extent (in %) will the alertness clerical staff help resolve the problem?  
**(5 Marks)**

- (b) ANZ Ltd. implemented a quality improvement programme and had the following results:

Particulars	2017	2018
	(Figures in Rs. '000)	
Sales	6,000	6,000
Scrap	600	300
Rework	500	400
Production Inspection	200	240
Product Warranty	300	150
Quality Training	75	150
Materials Inspection	80	60

**Required**

- (i) Classify the quality costs as prevention, appraisal, internal failure and external failure and express each class as a percentage of sales.
- (ii) Compute the amount of increase in profits due to quality improvement.

**(5 Marks)**

- (c) Zeland Limited, a manufacturing company has three divisions: Z, C and D. The company's all divisions are not performing well. Company wants to evaluate the potential closure of division "D". The cost and revenue information is given below:

	Division Z and C (Rs.)	Division D (Rs.)	Total (Rs.)
Sales	1,70,000	24,000	1,94,000
Less: Variable Cost	88,400	14,400	1,02,800
Contribution Margin	81,600	9,600	91,200
Less: Traceable Fixed Cost	66,000	12,200	78,200
Divisional Profit	15,600	−2,600	13,000
Less: Un-allocated Fixed Cost			5,000
Income Before Tax			8,000

**Required**

- (i) Calculate the increase or decrease in the profit after closure of division "D" if all traceable fixed cost of division "D" are avoidable. Should the division "D" be closed?

- (ii) Assume that traceable fixed cost of division "D" having 50% of staff salary can be reassigned to other divisions. What if the effect of closure of division "D" with this assumption? **(5 Marks)**
- (d) A transportation cost minimisation balanced quantity problem with Rows  $R_1$ ,  $R_2$ , and  $R_3$  and columns  $C_1$ ,  $C_2$ ,  $C_3$  and  $C_4$  has been attempted to have an initial feasible solution that is non-degenerate. Student A has done the  $\Delta_{ij}$  matrix taking  $u_1=0$  at  $R_1$  and student B has done the  $\Delta_{ij}$  matrix by taking  $u_2 = 10$  at  $R_2$ .
- (i) Will the  $(u_i + v_j)$  matrix elements for both students A and B be the same? Why?
- (ii) Will the  $\Delta_{ij}$  matrix elements for both of them be the same? Why? **(5 Marks)**
2. (a) 'Xu' and 'Yu' are two divisions of the Shenzhen group. The 'Xu' division manufactures electrical components which it sells to other divisions and external customers.

The 'Yu' division has designed a new product, Product B, and has asked 'Xu' to supply the electrical component, Component A, that is needed in the new product. This will be a completely new style of component. Each unit of Product B will require one Component A. This component will not be sold by 'Xu' to external customers. 'Xu' has quoted a transfer price to 'Yu' of Rs. 180 for each unit of Component A.

It is the policy of the Shenzhen group to reward managers based on their individual division's return on capital employed.

Details of the monthly production for each division are as follows:

'Xu' Division

Output	Component A will be produced in batches of 1,000 units. The maximum capacity is 6,000 components per month.
Variable Cost	Rs. 60 per component
Fixed Costs	Rs. 2,00,000 (these are incurred specifically to produce Component A)

'Yu' Division

Output	Product B will be produced in batches of 1,000 units. The maximum customer demand is 24,000 units of Product B per month.
Variable Cost	Rs. 36 per unit the cost of Component A
Fixed Costs	Rs. 3,00,000 (these are incurred specifically to produce Component B)

The relationship between monthly customer demand and the selling price of Product B is shown below:

Demand	Selling Price per unit (Rs.)
1,000 units	480
2,000 units	440
3,000 units	400
4,000 units	360
5,000 units	320
6,000 units	268

**Required**

- (i) Calculate, based on a transfer price of Rs. 180 per Component A, the monthly profit that would be earned as a result of selling Product B by:  
'Xu' division, 'Yu' division, Shenzhen group

- (ii) Calculate the maximum monthly profit from the sale of Product B for the Shenzhen group. **(8 Marks)**

- (b) Netcom Ltd. manufactures and sells a number of products. All of its products have a life cycle of less than one year. Netcom Ltd. uses a four stage life cycle model (Introduction, Growth, Maturity and Decline).

Netcom Ltd. has recently developed an innovative product. It was decided that it would be appropriate to adopt a market skimming pricing policy for the launch of the product.

However, Netcom Ltd. expects that other companies will try to join the market very soon.

This product is currently in the Introduction stage of its life cycle and is generating significant unit profits. However, there are concerns that these current unit profits will not continue during the other stages of the product's life cycle.

**Required**

Explain, with reasons, the changes, if any, to the unit selling price and the unit production cost that could occur when the products move from the previous stage into each of the following stages of its life cycle:

- (i) Growth  
(ii) Maturity **(8 Marks)**

3. (a) Given below is an iteration in a simplex table for a maximization objective linear programming product mix problem for products  $Y_1$ ,  $Y_2$  and  $Y_3$ .

$C_j \rightarrow$			6	4	10	0	0	0
	Basic Variable	Quantity	$Y_1$	$Y_2$	$Y_3$	$S_1$	$S_2$	$S_3$
0	$S_1$	400	0	4/3	0	1	-1/3	0
6	$Y_1$	400	1	2/3	2	0	1/3	0
0	$S_3$	400	0	5/3	0	0	-2/3	1
$Z_j$		2,400	6	4	12	0	2	0
$C_j - Z_j$			0	0	-2	0	-2	0

**Answer the following questions**

- (i) Is the above solution feasible?
  - (ii) Perform one more iteration with  $Y_2$  entering the solution to get a solution with the same value for the objective function.
  - (iii) Indicate the shadow prices.
  - (iv) If customer is prepared to pay higher price for product  $Y_3$  then by how much should the price be increased so that the company's profit remains unchanged?
  - (v) From the given table, derive any one original constraint inequality with the coefficients of variables in their simplest whole number forms. **(8 Marks)**
- (b) Star Fitness is a family owned fitness club, founded in 2013 by Fiona and Sandy with traditional style equipment. Club commenced operations in February 2014 within a shopping mall so that members after working out, can conveniently shop, dine, pick up their children from enrichment classes or go to the cinema.

Fiona and Sandy, the owners, pride themselves for providing a customized / tailored program by taking into account a person's medical history, present fitness level, fitness goals, fitness interests and offer many other small amenities that might be difficult to get in a larger Fitness Centre. They believe –

“Each individual is unique and requires a specialized program plan which should be customized and tailored to his/her needs.”

They have a number of loyal members even though it offers the traditional style equipment.

Fiona and Sandy take care of most of the routine operations, along with a small permanent staff, and temporary staff.

**Required**

- (i) Identify at least three critical success factors for Star Fitness.
- (ii) Construct a Balance Scorecard for Star Fitness. (2 measures for each of the 4 perspectives are sufficient) **(8 Marks)**

4. (a) The following information is available:

Activity	No. of days	No. of Men Required per Day
A (1-2)	4	2
B (1-3)	2	3
C (1-4)	8	5
D (2-6)	6	3
E (3-5)	4	2
F (5-6)	1	3
G (4-6)	1	7

**Required**

- Draw the network and find the critical path.
- What is peak requirement of Manpower? On which day(s) will this occur?
- If the maximum labour available on any day is only 10, when can the project be completed?

Note: use time scale diagram

**(10 Marks)**

- (b) The standard cost of a certain chemical mixture is as under:

40% of Material A @ Rs. 30 per kg

60% of Material B @ Rs. 40 per kg

A standard loss of 10% of input is expected in production. The following actual cost data is given for the period.

350 kg Material – A at a cost of Rs. 25

400 kg Material – B at a cost of Rs. 45

Actual weight produced is 630 kg.

**Required**

Calculate the following variances raw material wise and indicate whether they are favorable (F) or adverse (A).

- Price Variance, (ii) Mix Variance, (iii) Yield Variance

**(6 Marks)**

5. (a) Woodcraft Manufacturers Ltd. (WML) is specialist in the manufacturing of Industrial Products. They manufacture and market two types of products under the name 'X' and 'Y'. Company produces two products from three basic raw materials 'A', 'B', and 'C'. Company follows a 13-period reporting cycle for budgeting purpose. Each period is four weeks long and has 20 working days. Data relating to the purchase of raw materials are presented below:

Raw Material	Purchase Price (Per Kg)	Standard Purchase Lot (Kg)	Reorder Point (Kg)	Projected Inventory Status at the end of 5 <sup>th</sup> period (Kg)		Lead Time in Working Days
				On Hand	On Order	
A	Rs. 1.50	90,000	72,000	96,000	90,000	10
B	Rs. 3.00	30,000	45,000	54,000	-	25
C	Rs. 1.50	60,000	60,000	84,000	60,000	20

Past experience has shown that adequate inventory levels for 'X' and 'Y' can be maintained if 40 percent of the next period's projected sales are on hand at the end of a reporting period. Other relevant information is as follows:

Product	Raw Material Specifications			Projected Inventory Levels	Projected Sales		
	A	B	C	At the end of current (5 <sup>th</sup> ) period	6 <sup>th</sup> Period	7 <sup>th</sup> Period	8 <sup>th</sup> Period
	Kg	Kg	Kg	Units	Units	Units	Units
X	1.25	0.50	-	18,000	45,000	52,500	57,000
Y	2.00	-	1.50	16,800	42,000	27,000	24,000

The sales of 'X' and 'Y' do not vary significantly from month to month. Consequently, the safety stock incorporated into the reorder point for each of the raw materials is adequate to compensate for variations in the sales of the finished products.

Raw materials orders are placed the day the quantity on hand falls below the reorder point. WML's suppliers are very trustworthy so that the given lead times are reliable.

The outstanding orders for raw materials 'A' and 'C' are due to arrive on the 10<sup>th</sup> and 4<sup>th</sup> working day of the 6<sup>th</sup> period, respectively. Payments for all raw material orders are remitted by the 10<sup>th</sup> day of the delivery.

**Required**

Determine the following items for raw materials 'A', 'B', and 'C' for inclusion in the 6<sup>th</sup> period report to management:

- (i) Projected quantities (in Kg) to be issued to production.
- (ii) Projected quantities (in Kg) ordered and the date (in terms of working days) the order is to be placed.
- (iii) The projected inventory balance (in Kg) at the end of the period.
- (iv) The payments for purchases with due date. **(10 Marks)**
- (b) State whether each of the following independent activities is value-added or non-value-added:
- (i) Polishing of furniture used by a systems engineer in a software firm.
- (ii) Maintenance by a software company of receivables management software for a banking company.
- (iii) Painting of pencils manufactured by a pencil factory.
- (iv) Delivering Packages by a delivery service.
- (v) Providing legal research for legal services.
- (vi) Too long or insufficient set up times **(6 Marks)**
6. (a) The cost and sales data of Mould Industries. For the first half of the year 2018 are as follows:

Particulars	P	Q	R	S	Total
Output in units	900	1,400	700	500	3,500
Sales Price <i>per unit</i> (Rs.)	200	80	48	140	×
Per unit cost (Rs.)					
Direct Materials	82	38	21	58	×
Direct Labour @ 3/ hour	24	11	6	16	×
Variable Overheads	10	5	3	8	×

Fixed Overheads are Rs. 40,800 for first half of the year and evenly distributed in second half of the year. The free capacity of any product may be utilised by other product.

The demand for company's products are increasing day by day. It is expected that in the second half of the year, the company will be able to increase the total output by 5% which could be any one or all the products.

An associate company has offered to supply 200 units of Q in the second half of the year at 90% of the selling price fixed by Mould Industries. Mould Industries will incur an amount equivalent to 2% of selling price of Q as handling charges to market the aforesaid quantity in its brand name. In that case Mould Industries will be able to produce product P in place of purchased quantity of product Q.



**Required**

- (i) Prepare a statement of profit for the first half of 2018.
  - (ii) Select the best product for utilisation of additional 5% capacity and calculate the total profit resulting from the increased capacity utilisation.
  - (iii) Evaluate the proposal to buy Q from the associate company to increase the production of P.
  - (iv) Which of the products should be purchased from the associate company on subcontract at 90% of selling price with 2% handling charges to maximise profits? **(12 Marks)**
- (b) What are the various factors that help use of learning curve technique to take managerial decision in areas of marketing, make or buy, introduction of new product? **(4 Marks)**
7. Answer any **four** of the following questions:
- (a) A company is planning a new product. Market research information suggests that 40,000 units of the product can be sold at a maximum of Rs. 25 per unit. The company seeks a minimum mark-up of 25% on product cost. It is estimated that the lifetime costs of the product will be as follows:
    - (1) Research and development, design costs Rs. 1,50,000
    - (2) Manufacturing costs Rs. 16 per unit
    - (3) End of life costs Rs. 70,000
    - (4) Promotion and capacity cost Rs. 20,000

**Required**

- Should the product be manufactured? **(4 Marks)**
- (b) State whether and why the following statements are valid or not valid:  
(Statements need not be copied into answer book.)
- (i) Target costing is not applicable to a monopoly market.
  - (ii) Target costing ignores non-value added activities. **(4 Marks)**
- (c) Classify the following items appropriately under the three measures used in the Theory of constraints:
- (i) Research and Development Cost
  - (ii) Rental Utilities
  - (iii) Finished goods inventory
  - (iv) Depreciation

- (v) Labour Cost
  - (vi) Stock of Raw Materials
  - (vii) Sales
  - (viii) Cost of equipment and buildings **(4 Marks)**
- (d) There are three input materials P, Q and R in a process. The overall material mix variance and the mix variance of P are favourable. What can you conclude about the nature of mix variances of Q and R? Why? **(4 Marks)**
- (e) In a 3×4 transportation problem for minimizing costs, will the  $R_2C_1$  cell (at the intersection of the 2<sup>nd</sup> row and 1<sup>st</sup> column) always figure in the initial solution by the North West Corner Rule? Why? **(4 Marks)**

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**SUGGESTED ANSWERS/HINTS**

1. (a) Frequency Table

(i)	Insufficient Funds	140/265	52.83%
(ii)	Signature Mismatch	80/265	30.19%
(iii)	No Signature	20/265	7.55%
(iv)	Wrong Date	10/265	3.77%
(v)	Wrong Drawee	10/265	3.77%
(vi)	Others	5/265	1.89%

Insufficient Funds cannot be solved by clerical staff's alertness. Other problems (100-52.83) =47.17% can be solved with alertness by clerical staff.

(b) **Statement Showing Classification of Quality Costs”**

	2017		2018	
	Rs. '000	% of Sales	Rs. '000	% of Sales
Prevention:				
Quality Training	75	1.25%	150	2.50%
Appraisal:				
Product Inspection	200	3.33..%	240	4.00%
Materials Inspection	80	1.33..%	60	1.00%
Internal Failure:				
Scrap	600	10.00%	300	5.00%
Rework	500	8.33..%	400	6.66..%
External Failure:				
Product Warranty	300	5.00%	150	2.5
Total	1,755	29.25%	1,300	21.66..%

Cost reduction was effected by 7.583% (29.25 – 21.66..) of sales, which is an increase in profit by Rs. 4,54,980.

- (c) (i) Statement Showing Comparative Profit if all traceable Cost of Division "D" is avoidable.

Particulars	Total Operation of Company if it		Net Benefit to Closure D
	Keep Division D	Closure of D	
Sales	1,94,000	1,70,000	(24,000)
Less: Variable Expenses	1,02,800	88,400	+14,400
Contribution	91,200	81,600	(9,600)
Less: Total Fixed Cost	83,200	71,000	+12,200
Profit	8,000	10,600	+2,600

Profit will increase by Rs. 2,600 closure of division "D".

- (ii) Effect of Closure with Assumption

Particulars	(Rs.)
Reduction in Variable Cost	14,400
Reduction in Fixed Cost (Rs. 12,200 – Rs. 6,100)	6,100
Total Benefits	20,500
Reduction in Sales	(24,000)
Reduction in Profit by Closure of Division D	(3,500)

- (d)  $u_i, v_j$  are arbitrary constants. We can start by taking any constant for any of the  $u_i$  or  $v_j$ . Normally,  $u_i = 0$  is taken at  $R_1$  for convenient calculation.

$(u_i + v_j)$  will be the same. Since when we start with any one constant, the others are adjusted to align with that constant, such that  $u_i + v_j = \text{costs in the allocated cells}$ . Hence, they have to be same both A and B in all the unallocated cells also.

$\Delta_{ij}$  is the matrix of  $C_{ij} = (u_i + v_j)$  for the unallocated cells. The  $C_{ij}$  are given,  $(u_i + v_j)$  is the same as per above explanation. Hence,  $\Delta_{ij}$  has to be the same for A and B.

2. (a) (i) The situation is governed by the actions of the manager of 'Yu'. Based on a transfer price of Rs. 180 per component, the total variable cost per unit of Product B will be Rs. 216

Demand	Selling Price (Rs.)	Variable Cost (Rs.)	Contribution (Rs.)	Total Contribution (Rs.'000)
1,000 units	480	216	264	264
2,000 units	440	216	224	448
3,000 units	400	216	184	552

4,000 units	360	216	144	576
5,000 units	320	216	104	520
6,000 units	268	216	52	312

'Yu' will produce 4,000 units of Product B and will therefore order 4,000 of Component A from 'Xu'.

Particulars	Xu (Rs.'000)	Yu (Rs.'000)	Group (Rs.'000)
Revenue	720	1,440	1,440
Less: Variable Costs	240	864	384
Less: Fixed Costs	200	300	500
Profit	280	276	556

- (ii) The situation for the group should be judged using the total marginal costs of the divisions. This will give a variable cost per Product B of Rs. 96.

Demand	Selling Price (Rs.)	Variable Cost (Rs.)	Contribution (Rs.)	Total Contribution (Rs.'000)
1,000 units	480	96	384	384
2,000 units	440	96	344	688
3,000 units	400	96	304	912
4,000 units	360	96	264	1,056
5,000 units	320	96	224	1,120
6,000 units	268	96	172	1,032

The profit maximising output is 5,000 units of Product B. This will earn a total monthly profit for the Shenzhen Group of Rs. 6,20,000 (Rs.11,20,000 - Rs. 5,00,000).

**(b) (i) Growth Stage**

Compared to the introduction stage the likely changes are as follows:

Unit Selling Prices

These are likely to be reducing for a number of reasons:

- The product will become less unique as competitors use reverse engineering to introduce their versions of the product.
- Netcom may wish to discourage competitors from entering the market by lowering the price and thereby lowering the unit profitability.

- The price needs to be lowered so that the product becomes attractive to different market segments thus increasing demand to achieve the growth in sales volume.

Unit Production Costs

These are likely to reduce for a number of reasons:

- Direct materials are being bought in larger quantities and therefore Netcom may be able to negotiate better prices from its suppliers thus causing unit material costs to reduce.
- Direct labour costs may be reducing if the product is labour intensive due to the effects of the learning and experience curves.
- Other variable overhead costs may be reducing as larger batch sizes reduce the cost of each unit.
- Fixed production costs are being shared by a greater number of units.

**(ii) Maturity Stage**

Compared to the growth stage the likely changes are as follows:

Unit Selling Prices

These are unlikely to be reducing any longer as the product has become established in the market place. This is a time for consolidation and whilst there may be occasional offers to tempt customers to buy the product the selling price is likely to be fairly constant during this period.

Unit Production Costs

Direct material costs are likely to be fairly constant in this phase and may even rise as the quantities required diminish compared to those required in the growth stage with the consequential loss of negotiating power.

Direct labour costs are unlikely to be reducing any longer as the effects of the learning and experience curves have ended. Indeed the workers may have started working on the next product so that their attention towards this product has diminished with the result that these costs may increase.

Overhead costs are likely to be similar to those of the end of the growth phase as optimum batch sizes have been established and are more likely to be used in this maturity stage of the product life cycle where demand is more easily predicted.

**3. (a)**

$C_j \rightarrow$			6	4	10	0	0	0	Min. Ratio
$C_B$	Basic Variable	Quantity	$Y_1$	$Y_2$	$Y_3$	$S_1$	$S_2$	$S_3$	
0	$S_1$	400	0	4/3	0	1	-1/3	0	300

6	Y <sub>1</sub>	400	1	2/3	2	0	1/3	0	600
0	S <sub>3</sub>	400	0	5/3	0	0	-2/3	1	←240
$Z_j = \sum C_{Bj} X_j$			6	4	12	0	2	0	
$C_j - Z_j$			0	0↑	-2	0	-2	0	

(i) Yes, because the given solution has no artificial variables in the basic column.

(ii) Perform one more iteration with Y<sub>2</sub>:

C <sub>j</sub> →			6	4	10	0	0	0
C <sub>B</sub>	Basic Variable	Quantity	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	S <sub>1</sub>	S <sub>2</sub>	S <sub>3</sub>
0	S <sub>1</sub>	80	0	0	0	1	1/5	-4/5
6	Y <sub>1</sub>	240	1	0	2	0	3/5	-2/5
4	Y <sub>2</sub>	240	0	1	0	0	-2/5	3/5
$Z_j = \sum C_{Bj} X_j$			6	4	12	0	2	0
$C_j - Z_j$			0	0	-2	0	-2	0

(iii) Shadow Price is Rs.0, Rs.2 and Rs.0 (or any other given monetary unit) for Constraint 1, Constraint 2 and Constraint 3 respectively and same has been obtained from row  $C_j - Z_j$ .

(iv)  $C_j - Z_j$  for Y<sub>3</sub> being -2, production of each unit of Y<sub>3</sub> would cause a reduction of Rs.2 (or any other given monetary unit). Thus, the price for Y<sub>3</sub> should be increased by at least two rupee per unit to ensure no reduction of profits.

(v) Original Constraint Inequality with the coefficient of variables:

Let us consider the given iteration is the 2<sup>nd</sup> one. The first iteration (I<sub>1</sub>) must have had S<sub>2</sub> instead of Y<sub>1</sub>. Row Y<sub>1</sub> of I<sub>2</sub> has been computed by dividing the S<sub>2</sub> row of I<sub>1</sub> by 3. S<sub>2</sub> of I<sub>1</sub> (in Identity Matrix) would have been 1. Now it is 1/3. Working backwards, we multiply row Y<sub>1</sub> of I<sub>2</sub> by 3 to get Row S<sub>2</sub> of I<sub>1</sub>.

**Original Row S<sub>2</sub> [Y<sub>1</sub> of I<sub>2</sub> × 3]:**

$$(1Y_1 + 2/3Y_2 + 2Y_3) \times 3 \leq 400 \times 3$$

Or

$$3Y_1 + 2Y_2 + 6Y_3 \leq 1,200$$

Similarly **Original Row S<sub>1</sub> [S<sub>1</sub> of I<sub>2</sub> + Y<sub>1</sub> of I<sub>2</sub>]:**

$$(0Y_1 + 4/3Y_2 + 0Y_3) + (1Y_1 + 2/3Y_2 + 2Y_3) \leq 400 + 400$$

Or

$$Y_1 + 2Y_2 + 2Y_3 \leq 800$$

Similarly **Original Row S<sub>3</sub>** [ $S_3$  of  $I_2 + 2 \times Y_1$  of  $I_2$ ]:

$$0Y_1 + 5/3Y_2 + 0Y_3 + (1Y_1 + 2/3Y_2 + 2Y_3) \times 2 \leq 400 + 400 \times 2$$

Or

$$2Y_1 + 3Y_2 + 4Y_3 \leq 1,200$$



Original Constraint Inequality (with the coefficient of variables) can also be traced through algebraic method by solving through *system of equations*.

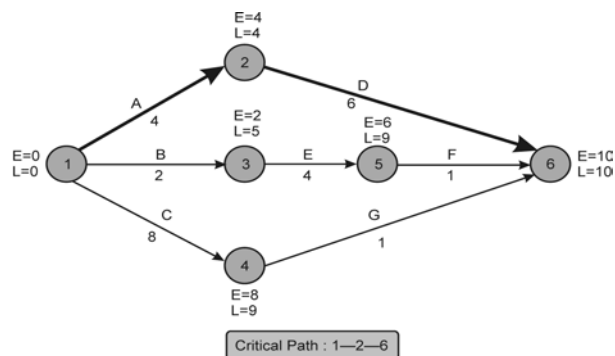
**(b) Star Fitness' main Critical Success Factors are**

- (i) Developing and maintaining a high level of customer satisfaction.
- (ii) Offering facilities that are not much below that offered by competition.
- (iii) Keeping a tight cap on costs as there is considerable competitive pressure in this industry and entry barriers are not high.

The following is a possible **Balance Scorecard** for Star Fitness:

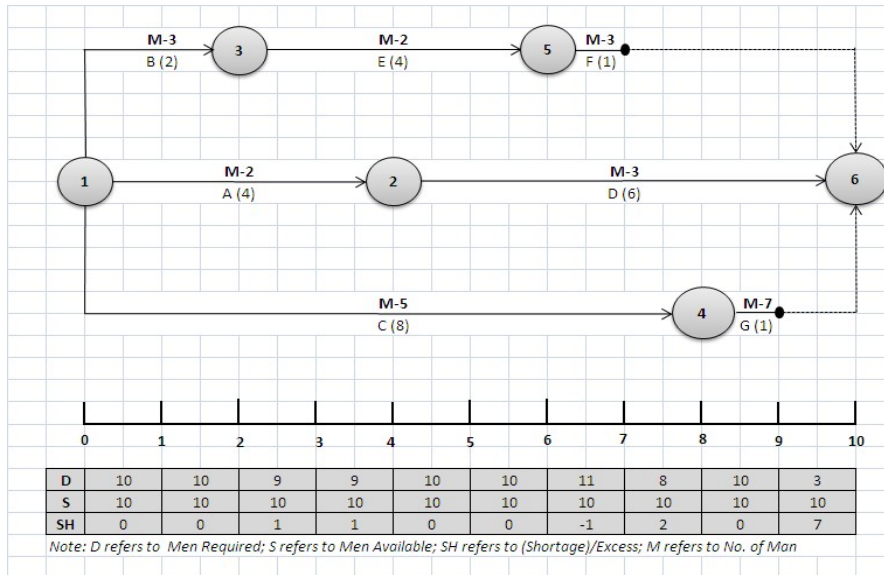
<b>Financial Perspective</b>	Operating expenses relative to budget
	Cash flow
	Total daily operating revenue
<b>Customer Perspective</b>	Turnover rate among members
	Customer satisfaction rate
<b>Internal Perspective</b>	Number of employee complaints
	Number of equipment not available on average day (due to maintenance)
<b>Innovation and Learning</b>	Number of new equipment put into service
	Number of staff participating in training courses

**4. (a)** The network for the given problem:

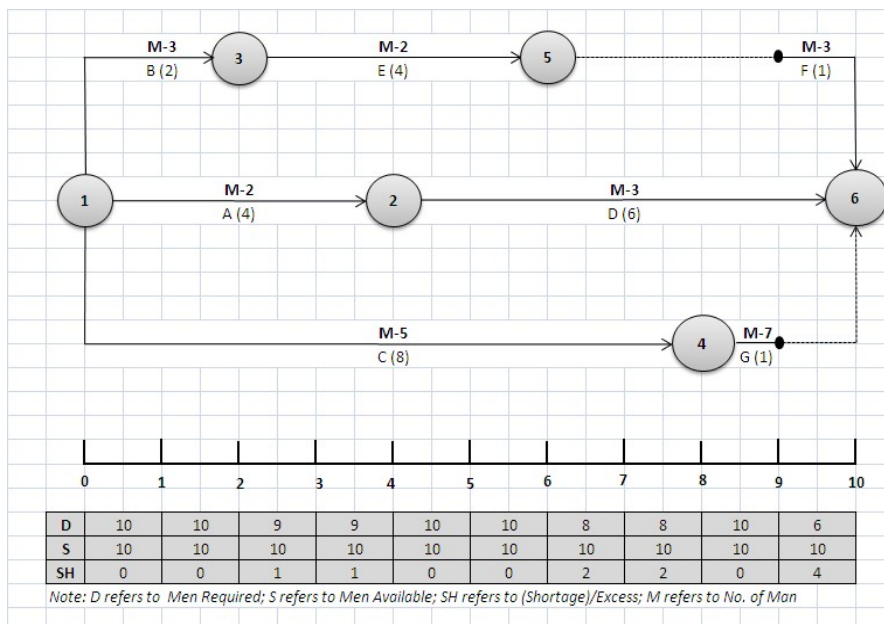




Peak requirement is 11 men and same is required on 7<sup>th</sup> Day (Refer below Time Scale Diagram).



The project can be completed in 10 days. For this, we have to shift Activity F to 10<sup>th</sup> Day as only 10 men are available on any day. (Refer below Time Scale Diagram)



(b) **BASIC CALCULATIONS**

Actual Output produced is 630 Kg. The Standard Quantity of Material required for 630 Kg. of output is 700 Kg.  $\left(\frac{630\text{Kg.}}{90} \times 100\right)$

**Statement Showing  
"Computation of Standard Cost / Actual Cost / Revised Actual Quantity"**

Material	Standard Cost			Actual Cost			Revised Actual Quantity [RAQ] (Kg.)
	Quantity [SQ] (Kg.)	Price [SP] (Rs.)	Amount [SQ × SP] (Rs.)	Quantity [AQ] (Kg.)	Price [AP] (Rs.)	Amount [AQ × AP] (Rs.)	
A	280 (40% of 700 Kg.)	30	8,400	350	25	8,750	300 (40% of 750 Kg.)
B	420 (60% of 700 Kg.)	40	16,800	400	45	18,000	450 (60% of 750 Kg.)
Total	700		25,200	750		26,750	750

**COMPUTATION OF VARIANCES**

**Material Price Variance** = AQ × (SP – AP)

A = 350 Kg. × (Rs.30 – Rs.25)  
= Rs.1,750 (F)

B = 400 Kg. × (Rs.40 – Rs.45)  
= Rs.2,000 (A)

Total = Rs.1,750 (F) + Rs.2,000 (A)  
= Rs.250 (A)

**Material Mix Variance** = SP × (RAQ – AQ)

A = Rs.30 × (300 Kg – 350 Kg)  
= Rs.1,500 (A)

B = Rs.40 × (450 Kg. – 400 Kg.)  
= Rs.2,000 (F)

Total = Rs.1,500 (A) + Rs.2,000 (F)  
= Rs.500 (F)

$$\begin{aligned}
 \text{Material Yield Variance} &= \text{SP} \times (\text{SQ} - \text{RAQ}) \\
 \text{A} &= \text{Rs.}30 \times (280 \text{ Kg.} - 300 \text{ Kg}) \\
 &= \text{Rs.}600 \text{ (A)} \\
 \text{B} &= \text{Rs.}40 \times (420 \text{ Kg.} - 450 \text{ Kg.}) \\
 &= \text{Rs.}1,200 \text{ (A)} \\
 \text{Total} &= \text{Rs.}600 \text{ (A)} + \text{Rs.}1,200 \text{ (A)} \\
 &= \text{Rs.}1,800 \text{ (A)}
 \end{aligned}$$

5. (a) (i) **Projected Raw Material Issues (Kg):**

	'A'	'B'	'C'
'X' (48,000 units-Refer Note)	60,000	24,000	---
'Y' (36,000 units-Refer Note)	<u>72,000</u>	---	<u>54,000</u>
Projected Raw Material Issues	<u>1,32,000</u>	<u>24,000</u>	<u>54,000</u>

**Note:**

- Based on this experience and the projected sales, the WML has budgeted production of 48,000 units of 'X' and 36,000 units of 'Y' in the eighth period.  
 $= 52,500 \times 40\% + 45,000 - 18,000 = 48,000$   
 $= 27,000 \times 40\% + 42,000 - 16,800 = 36,000$
- Production is assumed to be uniform for both products within each four-week period.

(ii) and (iii) **Projected Inventory Activity and Ending Balance (Kg):**

	'A'	'B'	'C'
Average Daily Usage	6,600	1,200	2,700
Beginning Inventory	96,000	54,000	84,000
Add: Orders Received:			
Ordered in 5 <sup>th</sup> period	90,000	-	60,000
Ordered in 6 <sup>th</sup> period	90,000	-	-
Sub Total	276,000	54,000	144,000
Less: Issues	132,000	24,000	54,000
Projected ending inventory balance	144,000	30,000	90,000

**Note:**

- Ordered 90,000 Kg of 'A' on fourth working day.

- Order for 90,000 Kg of 'A' ordered during fifth period received on tenth working day.
- Order for 90,000 Kg of 'A' ordered on fourth working day of sixth period received on fourteenth working day.
- Ordered 30,000 Kg of 'B' on eighth working day.
- Order for 60,000 Kg of 'C' ordered during fifth period received on fourth working day.
- No orders for 'C' would be placed during the sixth period.

**(iv) Projected Payments for Raw Material Purchases:**

Raw Material	Day/Period Ordered	Day/Period Received	Quantity Ordered	Amount Due	Day/Period Due
'A'	20 <sup>th</sup> /5 <sup>th</sup>	10 <sup>th</sup> /6 <sup>th</sup>	90,000 Kg	Rs. 135,000	20 <sup>th</sup> /6 <sup>th</sup>
'C'	4 <sup>th</sup> /5 <sup>th</sup>	4 <sup>th</sup> /6 <sup>th</sup>	60,000 Kg	Rs. 90,000	14 <sup>th</sup> /6 <sup>th</sup>
'A'	4 <sup>th</sup> /6 <sup>th</sup>	14 <sup>th</sup> /6 <sup>th</sup>	90,000 Kg	Rs. 135,000	4 <sup>th</sup> /7 <sup>th</sup>
'B'	8 <sup>th</sup> /6 <sup>th</sup>	13 <sup>th</sup> /7 <sup>th</sup>	30,000 Kg	Rs. 90,000	3 <sup>rd</sup> /8 <sup>th</sup>

(b)

Item	Value-Added/ Non-Value Added
Polishing of furniture used by a systems engineer in a software firm.	Non-Value Added
Maintenance by a software company of receivables management software for a banking company.	Value-Added
Painting of pencils manufactured by a pencil factory.	Value-Added
Delivering Packages by a delivery service.	Value-Added
Providing legal research for legal services.	Value-Added
Too long or insufficient set up times	Non-Value Added

**6. (a) (i) Statement of Profit Mould Industries for the first half of 2018**

Products	P	Q	R	S	Total
Output (units) (A)	900	1,400	700	500	3,500
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Selling Price (B)	200	80	48	140	
Direct Material Cost	82	38	21	58	
Direct Labour	24	11	6	16	

Variable Overhead	10	5	3	8	
Total Variable Cost ... (C)	116	54	30	82	
Contribution (D) = (B) - (C)	84	26	18	58	
Total Contribution (D) × (A)	75,600	36,400	12,600	29,000	1,53,600
Less: Fixed Cost					40,800
Profit					1,12,800

**(ii) Total Profit by using Increased Capacity**

Since the product P has maximum contribution per unit i.e. Rs. 84, it shall be produced to 105% of the first half year's total output of 3,500 units. Extra units will be 175 (3,500 × 1.05 – 3,500) units of P.

Extra Contribution (175 × 84) Rs. 14,700

Total Profit of II half Year (1,12,800 + 14,700) Rs. 1,27,500

**(iii) Evaluation of Proposal of Buying 200 units from Associated Company**

Particulars	Amount
Variable Cost Own Manufacturing of Q	54.00
Purchase Price <i>including handling charges</i> (Rs. 72.00 + Rs. 1.60)	73.60
Decrease in Contribution	19.60
Extra Contribution from P	84.00
Net Extra Contribution	64.40
Total Extra Contribution (Rs. 64.40 × 200)	12,880

**(iv)**

Particulars	P	Q	R	S
VC on Own Production	116.00	54.00	30.00	82.00
Cost of Purchase (92% of Selling Price)	184.00	73.60	44.16	128.80
Loss of Contribution	68.00	19.60	14.16	46.80

Product R should be purchased. Total increase in profit Rs. 13,968 {(Rs. 84 – Rs. 14.16) × 200}

**(b) The factors that generate such a phenomenon are:**

- (i) **Labour Efficiency:** Human beings have the ability to learn by practice and improve their performance. Even maintenance and supervision activities can be improved, by repeated experience.

- (ii) Product Standardisation: By repeated manufacture, reduction can be brought about in change over and setups.
  - (iii) Improvement in Methods and Process of Assembly: By repeated experience it is possible to improve the production processes and methods of operations by technical, work and method studies. Subassemblies can be contracted out.
  - (iv) Product Design: The design can be improved by eliminating unnecessary and costly features by value analysis.
  - (v) Scale Effect: With increase in the volumes of activity, capacity costs fall which brings about economies of scale.
7. (a) The new product can be sold into the market at a maximum of Rs. 25 per unit. The company also seeks a minimum mark-up of 25% on product cost, which means the product should have a target cost of Rs. 20 per unit. Calculation is as below:

Target Cost + 25% Mark-up on cost = Rs. 25

Or, Target Cost per unit = Rs. 20 per unit.

**Statement Showing "Life Cycle Cost per unit"**

Particulars of Cost	Rs.
Manufacturing Cost <i>per unit</i>	16.00
Add: - Research and Development, Design Cost $\left(\frac{\text{Rs. 1,50,000}}{40,000\text{units}}\right)$	3.75
- End of Life Costs $\left(\frac{\text{Rs. 70,000}}{40,000\text{units}}\right)$	1.75
- Promotion and Capacity Cost $\left(\frac{\text{Rs. 20,000}}{40,000\text{units}}\right)$	0.50
<b>Total Life Cycle Cost <i>per unit</i></b>	<b>22.00</b>

The above life cycle cost of the proposed product is above the target cost of Rs. 20 per unit hence, the product should not be manufactured.

**(b) Target Costing – VALID or NOT VALID**

Sl. No	Statement	Valid or Not valid
(i)	Target costing is not applicable to a monopoly market.	<b>Valid</b> , Target costing is applied where the price is market determined and in the existence of competitive environment. In monopoly market, a firm is a price maker hence, target costing method is not applicable to a monopoly market.

(ii)	Target costing ignores non-value added activities.	<b>Valid</b> , In case of target costing the aim is to confine the total cost to set target. To achieve this target cost figure, <i>non-value added activities are eliminated and hence ignored.</i>
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(c)

Three Measures of Theory of Constraints	Item
Throughput Contribution	(vii) Sales
Investments	(i) Research and Development Cost
	(iii) Finished Goods Inventory
	(vi) Stock of Raw material
	(viii) Cost of Equipment and Building
Operating Costs	(ii) Rent/Utilities
	(iv) Depreciation
	(v) Labour Cost

(d) At least one of Q or R or both have to be adverse. Material mix variance arises out of the actual quantity being consumed in a nonstandard ratio. If one is favourable, lesser of that constituent is consumed. This would mean that more of the other constituent is consumed. Hence, more quantity of Q or R or both have to be consumed. Either Q or R or both will have adverse variance. Both cannot have a favourable variance.

(e) The Initial solution obtained by the North-West Corner Rule in transportation need not always contain the  $R_2C_1$  cell. In the North-West Corner Rule the first allocation is made at  $R_1C_1$  cell and then it only moves towards  $R_2C_1$  cell when the resources at the first row i.e.  $R_1$  is exhausted first than the resources of first column i.e.  $C_1$ . On the contrary if resources at first column i.e.  $C_1$  is exhausted first then the next allocation will be at  $R_1C_2$ .

For example the resource availability at first row ( $R_1$ ) is 1,500 units and the demand in first column ( $C_1$ ) is 1,000 units. In this case resource availability of first row ( $R_1$ ) will be exhausted to the extent of the demand in first column ( $C_1$ ) first and then the remaining resource availability at first row ( $R_1$ ) will be used to meet the demand of the second column ( $C_2$ ). In this example cell  $R_2C_1$  will not come in initial solution obtained by the North-West Corner Rule.

**MOCK TEST PAPER 1**  
**FINAL COURSE (OLD) GROUP - II**  
**PAPER - 6: INFORMATION SYSTEMS CONTROL AND AUDIT**

**Time Allowed: 3 Hours**

**Maximum Marks: 100 Marks**

**Division A: MULTIPLE CHOICE QUESTIONS**

**Total Marks: 30 Marks**

**Question Nos. 1 to 8 carries 2 marks each.**

1. XYZ Bank has implemented Core Banking Solution (CBS) in all its branches. Since the Password policy is not implemented properly, users can keep short length login passwords for CBS access. This refers to \_\_\_\_\_ under Information Systems concepts.
  - (a) Threat
  - (b) Exposure
  - (c) Vulnerability
  - (d) Attack
2. Meteorological Department declares prediction of rains in the month of May based on which farmers decide to sow seeds in their fields. If the prediction goes wrong, farmers face severe problems of re-sowing seeds. Which characteristic of the information is failed here?
  - (a) Confidentiality
  - (b) Integrity
  - (c) Availability
  - (d) Reliability
3. XYZ Bank has implemented a strict password policy where by every user has minimum 8 characters' alpha-numeric login password and that password must be reset after 30 days to get access to Core Banking Solution (CBS). As per classification of IS Controls, which type of control is this?
  - (a) Preventative Control
  - (b) Detective Control
  - (c) Corrective Control
  - (d) Compensatory Control
4. ABC Ltd. carries out Fire drills in its company every 6 months whereby fire like situation is simulated and the preparedness of its organisation and its personnel for facing disaster is verified. This is \_\_\_\_\_ under the Business Continuity Management.
  - (a) Emergency Plan
  - (b) Test Plan
  - (c) Back-up Plan
  - (d) Recovery Plan



5. PQR Ltd. is a software development company. One of its employee, Mr. Rajesh has the responsibility to interact with users of the computer system and understand their requirements from the system. Which role is performed by Mr. Rajesh in the company?
- (a) Project Manager
  - (b) Project Leader
  - (c) Business Analyst
  - (d) Programmer
6. ABC Company implemented ERP in its organization. The Sales Team requested IT Team to provide them access to Accounts / Finance Module which was denied by the IT Team. Which of the Application Security control was tested here?
- (a) Confidentiality
  - (b) Integrity
  - (c) Availability
  - (d) Timeliness
7. PQR Ltd. is a Business Process Outsourcing (BPO) managing the health records for a renowned hospital in Mumbai. It was observed that one of the employee Mr. X of PQR Ltd. was sharing the confidential health records of the patients with an Insurance Company. Who will be held responsible under the IT Act for this offence?
- (a) Only Mr. X who was sharing records
  - (b) Mr. X and Directors
  - (c) Mr. X, Directors and Shareholders
  - (d) Only Directors
8. ABC Ltd. is engaged in providing Data Processing services. It has received a big contract from an insurance company for its policy processing. ABC Ltd. has limited PCs at their office, so it approached Amazon Web Services to provide them access to Virtual Machines for data processing. ABC Ltd. is using which Cloud Computing Service Model?
- (a) Software as a Service (SaaS)
  - (b) Platform as a Service (PaaS)
  - (c) Infrastructure as a Service (IaaS)
  - (d) Network as a Service (NaaS)

**(8 x 2 = 16 Marks)**

**Question Nos. 9 to 22 carries 1 mark each.**

9. Which of the following statement is incorrect?
- (a) IT Steering Committee is ideally led by a member of the Board of Directors and comprises of functional heads from all key departments of the enterprise including the audit and IT department.
  - (b) The role and responsibility of the IT Steering Committee and its members must be documented and approved by senior management.
  - (c) The IT Steering Committee provides overall direction to deployment of IT and information systems in the enterprises.

- (d) The Project Manager should work independently from the Steering Committee in finalizing the detailed work plan and developing interview schedules.
10. In an organization, the Top management generally comprises of \_\_\_\_\_.
- (a) owners/shareholders, Board of Directors, its chairman, managing director, or the chief executive
  - (b) heads of functions departments like purchase manager, production manager and marketing managers
  - (c) marketing managers, financial controller, and divisional sectional officers working under functional heads
  - (d) superintendents and supervisors
11. An Information Security policy addresses many issues that may involve the following:
- (i) confidentiality, integrity and availability concerns
  - (ii) who may access what information and in what manner based on which access decision is made
  - (iii) maximized sharing versus least privilege and separation of duties
  - (iv) programming new system, maintaining old systems and providing general support software.
- (a) (i), (ii), (iii)
  - (b) (i), (ii), (iv)
  - (c) (ii), (iii), (iv)
  - (d) (i), (ii), (iii), (iv)
12. Which of the following statement is incorrect?
- (a) A Full Backup captures all files on the disk or within the folder selected for backup.
  - (b) The Mirror backup is clean and does not contain old and obsolete files.
  - (c) With differential backups, one full backup is done first and subsequent backup runs are the changes made since the last full backup.
  - (d) Incremental Backup consumes the most storage space as compared to full and differential backups.
13. Which of the following activity is not involved in Database Designing during System Designing phase of System Development Life Cycle (SDLC)?
- (a) Storage Structure Design
  - (b) Cost Analysis
  - (c) Physical Layout Design
  - (d) Conceptual Modeling
14. The audit trail of \_\_\_\_\_ maintains the chronology of events from the time data is received from the input or communication subsystem to the time data is dispatched to the database, communication, or output subsystems.
- (a) Database Controls
  - (b) Output Controls
  - (c) Processing Controls
  - (d) Communication Controls

15. In Information Technology Act 2000; \_\_\_\_\_ is defined as a person in whose name the Electronic Signature Certificate is issued.
- (a) Controller
  - (b) Intermediary
  - (c) Originator
  - (d) Subscriber
16. Which of the following issue is not related to security in Mobile Computing?
- (a) Confidentiality
  - (b) Integrity
  - (c) Bandwidth
  - (d) Accountability
17. In Information Systems; an action, device, procedure, technique or other measure that reduces the vulnerability of a component in it is referred as \_\_\_\_\_.
- (a) Residual Risk
  - (b) Counter Measure
  - (c) Risk Management
  - (d) Threat
18. Which of the following activity is not involved in Office Automation Systems (OAS)?
- (a) Document Creation
  - (b) Filling, Search, Retrieval and Follow up
  - (c) Receipts and Distribution
  - (d) Decision Making
19. Which of the following is not a type of Application Control under controls based on Audit functions?
- (a) Boundary
  - (b) Input
  - (c) Security Administration
  - (d) Output
20. Which of the following document is not classified as being part of the Business Continuity Management System?
- (a) The Risk Assessment Report
  - (b) The Business Impact Analysis report
  - (c) Local Authority Risk Register
  - (d) Performance Analysis Report
21. Under which dimension, the Feasibility Study under System Development Life Cycle (SDLC) is not evaluated?
- (a) Technical
  - (b) Legal

- (c) Operational
  - (d) Incremental
22. Which of the following is not an example of Information Systems Audit Tool?
- (a) Flowchart
  - (b) System Control Audit Review File (SCARF)
  - (c) Integrated Test Facility (ITF)
  - (d) Continuous and Intermittent Simulation (CIS)
- (14 x 1 = 14 Marks)**

### Division B: DESCRIPTIVE QUESTIONS

**Total Marks: 70 Marks**

**Question No. 1 is compulsory.**

**Attempt any four questions out of remaining five questions.**

1. (a) There exists ISACA's globally accepted framework which is defined as a set of globally accepted principles, practices, analytical tools and models that can be customized for enterprises of all sizes, industries and geographies; and helps these enterprises to create optimal value from their information and technology. Identify the standard and discuss its components. **(6 Marks)**
- (b) An organization intends to adopt various methods to protect its hardware installations in its premises against fire damage. Describe major ways using which this objective can be achieved. **(5 Marks)**
- (c) "The audit objective and scope has a significant bearing on the skill and competence requirements of an IS auditor". Prepare a list of the skill-set generally expected to have acquired by an IS auditor. **(3 Marks)**
2. (a) Application security audit uses the Layered approach which is based on the activities being undertaken at various levels of management namely Operational, Tactical and Strategic. Discuss in brief various audit issues related to these layers. **(6 Marks)**
- (b) Discuss various processes that are mapped in Business Continuity Management (BCM). **(5 Marks)**
- (c) An IS auditor is responsible to evaluate certain factors while reviewing the adequacy of data security controls. List them. **(3 Marks)**
3. (a) Because of the global competition, enterprises are always in greater need of efficient and timely provision of information to enhance the ability to make decisions based on relevant information. Determine the attributes of any useful and effective information. **(6 Marks)**
- (b) What do we understand by the term Audit Trail? Discuss Accounting and Operations Audit Trails w.r.t Processing Controls under Application Controls. **(5 Marks)**
- (c) What activities are required to be performed by the management of an organization wanting to adopt ISO 27001? **(3 Marks)**
4. (a) In Cloud Computing, there is a cloud that is a combination of both at least one private (internal) and at least one public (external) cloud computing environments - usually, consisting of infrastructure, platforms and applications. Identify the type of the cloud and prepare list of its characteristics and advantages. **(6 Marks)**

- (b) Source Document Controls are one of the type of Input Controls that are used to limit source document related frauds. Discuss various control procedures that should be put in place to account for each such source document. **(5 Marks)**
- (c) Discuss about Business Continuity Planning (BCP) Manual. **(3 Marks)**
5. (a) A company ABC Ltd., communicated through email to competent manufacturer of garments, its willingness to purchase the dress material for the stitching of the uniforms of the staff constituting of 1000 people. The company invited the quotation of price for supply of dress material. X manufacturer offered the dress material @ Rs. 500 per meter within 2 months from the date of order. ABC Ltd. accepted the said offer via e-mail. In the meantime, M/s PRQ from an insider, came to know of the requirement of the ABC Ltd. With respect to the same, they through mail contacted the company with a proposal to supply the stitched uniforms with dress material @ Rs. 500.
- ABC Ltd. accepted their proposal and revoked the agreement made with X manufacturer and communicated it through mail. X manufacturer filed a suit for the claim of the loss borne due to refusal of the agreement. ABC Ltd. took the plea that no formal agreement was entered and it was a communication mail between them and thus not giving rise to any legal obligations.
- In the light of the given facts, examine the following legal position as per the IT Act, 2000-
- (i) Validity of acceptance of offer by ABC Ltd. with X manufacturer as to the supply of dress material for the making of staff uniform.
- (ii) Whether the contention of the ABC Ltd. that no formal agreement was entered between them, is acceptable?
- (iii) Nature of the contract entered between ABC Ltd. and the M/s PRQ and its liability towards X manufacturer. **(2 x 3 = 6 Marks)**
- (b) Continuous auditing enables auditors to shift their focus from the traditional "transaction" audit to the "system and operations" audit. Discuss its benefits. **(5 Marks)**
- (c) The Waterfall model under System Development Methodology has major strengths due to which it is quite popular and handy among the fraternity. Discuss them. **(3 Marks)**
6. (a) Detailed investigation of the present system should be carried out by qualified persons and experts to fully understand the present system and its related problems. Determine the areas on which the detailed analysis should be done before the system analysis of the proposed system. **(6 Marks)**
- (b) Discuss the term "Information Technology (IT) Governance" and its benefits. **(5 Marks)**
- (c) What are the requirements of Insurance Regulatory and Development Authority of India (IRDA) for System Controls? **(3 Marks)**

**MOCK TEST PAPER 1**  
**FINAL COURSE (OLD) GROUP - II**  
**PAPER - 6: INFORMATION SYSTEMS CONTROL AND AUDIT**  
**ANSWERS**

**Division A: MULTIPLE CHOICE QUESTIONS**

1. (c) Vulnerability
2. (d) Reliability
3. (a) Preventative Control
4. (b) Test Plan
5. (c) Business Analyst
6. (a) Confidentiality
7. (b) Mr. X and Directors
8. (c) Infrastructure as a Service (IaaS)
9. (d) The Project Manager should work independently from the Steering Committee in finalizing the detailed work plan and developing interview schedules.
10. (a) owners/shareholders, Board of Directors, its chairman, managing director, or the chief executive
11. (a) (i), (ii), (iii)
12. (d) Incremental Backup consumes the most storage space as compared to full and differential backups
13. (b) Cost Analysis
14. (c) Processing Controls
15. (d) Subscriber
16. (c) Bandwidth
17. (b) Counter Measure
18. (d) Decision Making
19. (c) Security Administration
20. (d) Performance Analysis Report
21. (d) Incremental
22. (a) Flowchart

**Division B: DESCRIPTIVE QUESTIONS**

1. (a) **COBIT 5** is a set of globally accepted principles, practices, analytical tools and models that can be customized for enterprises of all sizes, industries and geographies; and helps these enterprises to create optimal value from their information and technology.

Components in COBIT 5 are as follows:

- **Framework** - Organize IT governance objectives and good practices by IT domains and processes, and links them to business requirements;

- **Process Descriptions** - A reference process model and common language for everyone in an organization. The processes map to responsibility areas of plan, build, run and monitor.
  - **Control Objectives** - Provide a complete set of high-level requirements to be considered by management for effective control of each IT process.
  - **Management Guidelines** - Help assign responsibility, agree on objectives, measure performance, and illustrate interrelationship with other processes.
  - **Maturity Models** - Assess maturity and capability per process and helps to address gaps.
- (b) Some of the major ways of protecting the installation against fire damage in an organization are as follows:
- Both automatic and manual fire alarms may be placed at strategic locations and a control panel may be installed to clearly indicate this.
  - Besides the control panel, master switches may be installed for power and automatic fire suppression system. Different fire suppression techniques like Dry-pipe sprinkling systems, water based systems, halon etc., depending upon the situation may be used.
  - Manual fire extinguishers can be placed at strategic locations.
  - Fireproof Walls, Floors and Ceilings surrounding the Computer Room and Fire Resistant Office Materials such as wastebaskets, curtains, desks and cabinets should be used.
  - Fire exits should be clearly marked. When a fire alarm is activated, a signal may be sent automatically to permanently manned station.
  - All staff members should know how to use the system. The procedures to be followed during an emergency should be properly documented are Fire Alarms, Extinguishers, Sprinklers, Instructions / Fire Brigade Nos., Smoke detectors, and Carbon dioxide based fire extinguishers.
  - Less Wood and plastic should be in computer rooms.
  - Use a gas based fire suppression system;
  - To reduce the risk of firing, the location of the computer room should be strategically planned and should not be located in the basement or ground floor of a multi-storey building.
  - Regular Inspection by Fire Department should be conducted.
  - Fire repression systems should be supplemented and not replaced by smoke detectors.
  - **Documented and Tested Emergency Evacuation Plans:** Relocation plans should emphasize human safety, but should not leave information processing facilities physically unsecured. Procedures should exist for a controlled shutdown of the computer in an emergency situation. In all circumstances saving human life should be given paramount importance.
  - **Smoke Detectors:** Smoke detectors are positioned at places above and below the ceiling tiles. Upon activation, these detectors should produce an audible alarm and must be linked to a monitored station (for example, a fire station).
  - **Wiring Placed in Electrical Panels and Conduit:** Electrical fires are always a risk. To reduce the risk of such a fire occurring and spreading, wiring should be placed in the fire-resistant panels and conduit. This conduit generally lies under the fire-resistant raised floor in the computer room.
- (c) The audit objective and scope has a significant bearing on the skill and competence requirements of an IS auditor. The set of skills that is generally expected to be with an IS auditor include:

- Sound knowledge of business operations, practices and compliance requirements;
  - Should possess the requisite professional technical qualification and certifications;
  - A good understanding of information Risks and Controls;
  - Knowledge of IT strategies, policy and procedural controls;
  - Ability to understand technical and manual controls relating to business continuity, and
  - Good knowledge of Professional Standards and Best Practices of IT controls and security.
2. (a) Application security audit uses the Layered approach which is based on the activities being undertaken at various levels of management namely Operational, Tactical and Strategic Various aspects relating to these layers are as follows:
- (i) **Operational Layer:** The operational layer audit issues include:
- **User Accounts and Access Rights:** This includes defining unique user accounts and providing them access rights appropriate to their roles and responsibilities. Auditor needs to always ensure the use of unique user IDs, and this needs to be traceable to individual for whom it is created.
  - **Password Controls:** In general, password strength, password minimum length, password age, password non-repetition and automated lockout after three attempts should be set as a minimum. Auditor needs to check whether there are applications where password controls are weak.
  - **Segregation of Duties:** Segregation of Duties is a basic internal control that prevents or detects errors and irregularities by assigning to separate individuals' responsibility for initiating and recording transactions and custody of assets to separate individuals. Auditor needs to check that there is no violation of this. Any violation may have serious repercussions, the same need to be immediately communicated to those charged with governance.
- (ii) **Tactical Layer:** At the tactical layer, security administration is put in place. This includes:
- Timely updates to user profiles, like creating/deleting and changing of user accounts. Auditor needs to check that any change to user rights is a formal process including approval from manager of the employee.
  - **IT Risk Management:** This function is another important function performed, it includes the following activities:
    - Assessing risk over key application controls;
    - Conducting a regular security awareness programme on application user;
    - Enabling application users to perform a self-assessment/complete compliance checklist questionnaire to gauge the users' understanding about application security;
    - Reviewing application patches before deployment and regularly monitoring critical application logs;
    - Monitoring peripheral security in terms of updating antivirus software;
- An auditor should understand the risk associated with each application and obtain a report on periodic risk assessment on the application or self-assessment/ compliance reports on the application.
- **Interface Security:** This relates to application interfaced with another application in an organization. An auditor needs to understand that data flow to and from the application.



- **Audit Logging and Monitoring:** Regular monitoring the audit logs is required. The same is not possible for all transactions, so must be done on an exception reporting basis.
- (iii) **Strategic Layer:** At this layer, the top management takes action, in form of drawing up security policy, security training, security guideline and reporting. A comprehensive information security programme fully supported by top management and communicated well to the organization is of paramount importance to succeed in information security. The security policy should be supported and supplemented by detailed standards and guidelines. These guidelines shall be used at the appropriate level of security at the application, database and operating system layers.
- (b) Various processes that are mapped in Business Continuity Management (BCM) are as follows:
- **Organization Structure:** The organization should nominate a person or a team with appropriate seniority and authority to be accountable for BCM policy implementation and maintenance. It should clearly define the persons responsible for business continuity within the enterprise and responsibility.
  - **Implementing Business Continuity in the Enterprise and Maintenance:** In establishing and implementing the BCM system in the organization, managers from each function on site represent their areas of the operation. These people are also responsible for the ongoing operation and maintenance of the system within their area of responsibility. Where training is required to enable as a colleague to effectively carry out their BCM responsibilities, this will be identified as part of the ongoing staff appraisal and training process. Top management should appoint the Manager (BCM) role as being the role that is responsible for the BCM policy and its implementation.

In implementation, the major activities that should be carried out include:

- Defining the scope and context;
  - Defining roles and responsibilities;
  - Engaging and involving all stakeholders;
  - Testing of program on regular basis;
  - Maintaining the currency & appropriateness of business continuity program;
  - Reviewing, reworking and updating the business continuity capability, risk assessments (RA) and Business Impact Analysis (BIAs);
  - Managing costs and benefits associated; and □ Convert policies and strategies into action.
- **BCM Documentation and Records:** All documents that form the BCM are subject to the document control and record control processes. The following documents (representative only) are classified as being part of the business continuity management system:
    - The business continuity policy;
    - The business continuity management system;
    - The business impact analysis report;
    - The risk assessment report;
    - The aims and objectives of each function;
    - The activities undertaken by each function;
    - The business continuity strategies;
    - The overall and specific incident management plans;

- The business continuity plans;
  - Change control, preventative action, corrective action, document control and record control processes;
  - Local Authority Risk Register;
  - Exercise schedule and results;
  - Incident log; and
  - Training program.
- (c) An IS auditor is responsible to evaluate the following while reviewing the adequacy of data security controls:
- Who is responsible for the accuracy of the data?
  - Who is permitted to update data?
  - Who is permitted to read and use the data?
  - Who is responsible for determining who can read and update the data?
  - Who controls the security of the data?
  - If the IS system is outsourced, what security controls and protection mechanism does the vendor have in place to secure and protect data?
  - Contractually, what penalties or remedies are in place to protect the tangible and intangible values of the information?
3. (a) Some important attributes of useful and effective information are given as follows:
- **Availability** - It is a very important aspect of information. Information is useless if it is not available at the time of need. Database is a collection of files which is collection of records and data from where the required information is derived for useful purpose.
  - **Purpose/Objective** - Information must have purposes/objective at the time it is transmitted to a person or machine, otherwise it is simple data. Depending upon the activities in an organization the Information communicated to people has a purpose. The basic objective of information is to inform, evaluate, persuade, and organize. This indeed helps in decision making, generating new concepts and ideas, identify and solve problems, planning, and controlling which are needed to direct human activity in business enterprises.
  - **Mode and format** - The modes of communicating information to humans should be in such a way that it can be easily understandable by the people. The mode may be in the form of voice, text and combination of these two. Format also plays an important role in communicating the idea. It should be designed in such a way that it assists in decision making, solving problems, initiating planning, controlling and searching. According to the type of information the different formats can be used e.g. diagrams, graphs, curves are best suited for representing the statistical data. Format of information should be simple, relevant and should highlight important points but should not be too cluttered up.
  - **Current/Updated** - The information should be refreshed from time to time as it usually rots with time and usage. For example, the running score sheet of a cricket match available in Internet sites should be refreshed at fixed interval of time so that the current score will be available. Similar is the case with broker who wants the latest information about the stock market.
  - **Rate** - The rate of transmission/reception of information may be represented by the time required to understand a particular situation. Useful information is the one which is

transmitted at a rate which matches with the rate at which the recipient wants to receive. For example- the information available from internet site should be available at a click of mouse.

- **Frequency** - The frequency with which information is transmitted or received affects its value. For example- the weekly reports of sales show little change as compared to the quarterly and contribute less for accessing salesman capability.
  - **Completeness and Adequacy** - The information provided should be complete and adequate in itself because only complete information can be used in policy making. For example-the position of student in a class can be find out only after having the information of the marks of all students and the total number of students in a class.
  - **Reliability** - It is a measure of failure or success of using information for decision-making. If information leads to correct decision on many occasions, we say the information is reliable.
  - **Validity** - It measures how close the information is to the purpose for which it asserts to serve. For example, the experience of employee supports in evaluating his performance.
  - **Quality** - It means the correctness of information. For example, an over-optimistic manager may give too high estimates of the profit of product which may create problem in inventory and marketing.
  - **Transparency** - It is essential in decision and policy making. For example, total amount of advance does not give true picture of utilization of fund for decision about future course of action; rather deposit-advance ratio is perhaps more transparent information in this matter.
  - **Value of Information** - It is defined as difference between the value of the change in decision behavior caused by the information and the cost of the information. In other words, given a set of possible decisions, a decision-maker may select one on basis of the information at hand. If new information causes a different decision to be made, the value of the new information is the difference in value between the outcome of the old decision and that of the new decision, less the cost of obtaining the information.
- (b) **Audit Trail:** Audit trails are logs that can be designed to record activity at the system, application, and user level. When properly implemented, audit trails provide an important detective control to help accomplish security policy objectives. Audit trail controls attempt to ensure that a chronological record of all events that have occurred in a system is maintained. This record is needed to answer queries, fulfill statutory requirements, detect the consequences of error and allow system monitoring and tuning.

In Processing Controls, the audit trail maintains the chronology of events from the time data is received from the input or communication subsystem to the time data is dispatched to the database, communication, or output subsystems.

#### **Accounting Audit Trail**

- To trace and replicate the processing performed on a data item.
- Triggered transactions to monitor input data entry, intermediate results and output data values.

#### **Operations Audit Trail**

- A comprehensive log on hardware consumption – CPU time used, secondary storage space used, and communication facilities used.
- A comprehensive log on software consumption – compilers used, subroutine libraries used, file management facilities used, and communication software used.

- (c) For an organization to adopt ISO 27001 standard, it requires that management:
- systematically examines the organization's information security risks, taking account of the threats, vulnerabilities, and impacts;
  - designs and implements a coherent and comprehensive suite of information security controls and/or other forms of risk treatment (such as risk avoidance or risk transfer) to address those risks that are deemed unacceptable; and
  - adopts an overarching management process to ensure that the information security controls continue to meet the organization's information security needs on an ongoing basis.

4. (a) **Hybrid Cloud** is a combination of both at least one private (internal) and at least one public (external) cloud computing environments - usually, consisting of infrastructure, platforms and applications. The usual method of using the hybrid cloud is to have a private cloud initially, and then for additional resources, the public cloud is used. The hybrid cloud can be regarded as a private cloud extended to the public cloud and aims at utilizing the power of the public cloud by retaining the properties of the private cloud. It is typically offered in either of two ways. A vendor has a private cloud and forms a partnership with a public cloud provider or a public cloud provider forms a partnership/franchise with a vendor that provides private cloud platforms.

Characteristics of Hybrid Cloud are as follows:

- **Scalable:** The hybrid cloud has the property of public cloud with a private cloud environment and as the public cloud is scalable; the hybrid cloud with the help of its public counterpart is also scalable.
- **Partially Secure:** The private cloud is considered as secured and public cloud has high risk of security breach. The hybrid cloud thus cannot be fully termed as secure but as partially secure.
- **Stringent Service Level Agreements (SLAs):** Overall the SLAs are more stringent than the private cloud and might be as per the public cloud service providers.
- **Complex Cloud Management:** Cloud management is complex as it involves more than one type of deployment models and also the number of users is high.

The Advantages of Hybrid Cloud include the following:

- It is highly scalable and gives the power of both private and public clouds.
- It provides better security than the public cloud.

- (b) In systems that use physical source documents to initiate transactions, careful Source Document controls must be exercised over these instruments. Source document fraud can be used to remove assets from the organization. To control against this type of exposure, the organization must implement control procedures over source documents to account for each document, as described below:

- **Use pre-numbered source documents:** Source documents should come pre-numbered from the printer with a unique sequential number on each document. Source document numbers enable accurate accounting of document usage and provide an audit trail for tracing transactions through accounting records.
- **Use source documents in sequence:** Source documents should be distributed to the users and used in sequence. This requires the adequate physical security be maintained over the source document inventory at the user site. When not in use, documents should be kept under lock and key and access to source documents should be limited to authorized persons.

- **Periodically audit source documents:** Missing source documents should be identified by reconciling document sequence numbers. Periodically, the auditor should compare the numbers of documents used to date with those remaining in inventory plus those voided due to errors. Documents not accounted for should be reported to management.
- (c) **BCP Manual:** A BCP manual is a documented description of actions to be taken, resources to be used and procedures to be followed before, during and after an event that severely disrupts all or part of the business operations. An incident or disaster affecting critical business operations can strike at any time. Successful organizations have a comprehensive BCP Manual, which ensures process readiness, data and system availability to ensure business continuity

The BCP Manual is expected to specify the responsibilities of the BCM team, whose mission is to establish appropriate BCP procedures to ensure the continuity of enterprise's critical business functions. In the event of an incident or disaster affecting any of the functional areas, the BCM Team serves as liaising teams between the functional area(s) affected and other departments providing support services.

5. (a) As per given facts, Proposal and acceptance of the proposal giving rise to an agreement was there between the ABC Ltd. and X manufacturer for the supply of dress material @ Rs. 500 per meter within 2 months from the date of order through the communication vide mails. However, in the meantime, ABC Ltd. accepted the proposal of M/s PRQ and revoked the agreement made with X manufacturer and communicated the revocation of the acceptance of the proposal.

The given situation can be dealt with the Section 10A of the IT Act, 2000, where in a contract formation, the communication of proposals, the acceptance of proposals, the revocation of proposals and acceptances, as the case may be, are expressed in electronic form or by means of an electronic record, such contract shall not be deemed to be unenforceable solely on the ground that such electronic form or means was used for that purpose.

Thus, accordingly following are the answers to the questions:

- (i) Acceptance of offer by ABC Ltd. with X manufacturer, to the supply of dress material for the staff uniform is legal binding agreement, thus giving rise to valid contract though made through communications vide mails.
  - (ii) No, because provision explicitly states that contract formation in electronic form or by means of an electronic record, such contract shall not be deemed to be unenforceable solely on the ground that such electronic form or means was used for that purpose. So, the contention of the ABC Ltd. that no formal agreement was entered between them, is not justified.
  - (iii) The contract made between ABC Ltd. and the M/s PRQ cannot come into legal enforcement until the first contract i.e. contract between ABC Ltd. and X manufacturer discharged or performed. Here in the case neither was the case. Further, the contract cannot be revoked once it is accepted. In fact, it is the breach of the contract. Due to the breach of the contract the ABC Ltd. is liable for damages to the X manufacturer.
- (b) Continuous auditing enables auditors to shift their focus from the traditional "transaction" audit to the "system and operations" audit. Continuous auditing has a number of potential benefits including:
- Reducing the cost of the basic audit assignment by enabling auditors to test a larger sample (up to 100 percent) of client's transactions and examine data faster and more efficiently than the manual testing required when auditing around the computer;
  - Reducing the amount of time and costs auditors traditionally spend on manual examination of transactions;

- Increasing the quality of audits by allowing auditors to focus more on understanding a client's business and industry and its internal control structure; and
  - Specifying transaction selection criteria to choose transactions and perform both tests of controls and substantive tests throughout the year on an ongoing basis.
- (c) The fundamental strength of the Waterfall Model has made it quite popular and handy among the fraternity. Major strengths are given as follows:
- It is ideal for supporting less experienced project teams and project managers or project teams, whose composition fluctuates.
  - The orderly sequence of development steps and design reviews help to ensure the quality, reliability, adequacy and maintainability of the developed software.
  - Progress of system development is measurable.
  - It enables to conserve resources.
6. (a) Detailed investigation of the present system involves collecting, organizing and evaluating facts about the system and the environment in which it operates. There should be enough information assembled so that a qualified person can understand the present system without visiting any of the operating departments. Survey of existing methods, procedures, data flow, outputs, files, input and internal controls that should be intensive to fully understand the present system and its related problems. The following areas should be studied in depth:
- **Reviewing Historical Aspects:** A brief history of the organization is a logical starting point for an analysis of the present system. The historical facts enable to identify the major turning points and milestones that have influenced its growth. A review of annual reports and organization charts can identify the growth of management levels as well as the development of various functional areas and departments. The system analyst should investigate 'what system changes have occurred in the past including operations' that have been successful or unsuccessful with computer equipment and techniques.
  - **Analyzing Inputs:** A detailed analysis of present inputs is important since they are basic to the manipulation of data. Source documents are used to capture the originating data for any type of system. The system analyst should be aware of various sources from where the data are initially captured, keeping in view the fact that outputs for one area may serve as an input for another area. The system analyst must understand the nature of each form, 'what is contained in it', 'who prepared it', 'from where the form is initiated', 'where it is completed', the distribution of the form and other similar considerations. If the analyst investigates these questions thoroughly, s/he will be able to determine how these inputs fit into the framework of the present system.
  - **Reviewing Data Files:** The analyst should investigate the data files maintained by each department, noting their number and size, where they are located, who uses them and the number of times per given time interval, these are used. Information on common data files and their size will be an important factor, which will influence the new information system. This information may be contained in the systems and procedures manuals. The system analyst should also review all on-line and off-line files, which are maintained in the organization as it will reveal information about data that are not contained in any outputs. The related cost of retrieving and processing the data is another important factor that should be considered by the systems analyst.
  - **Reviewing Methods, Procedures and Data Communications:** Methods and procedures transform input data into useful output. A method is defined as a way of doing something; a procedure is a series of logical steps by which a job is accomplished. A procedure review is an intensive survey of the methods by which each job is accomplished, the equipment

utilized and the actual location of the operations. Its basic objective is to eliminate unnecessary tasks or to perceive improvement opportunities in the present information system. A system analyst also needs to review and understand the present data communications used by the organization. S/he must review the types of data communication equipment including data interface, data links, modems, dial-up and leased lines and multiplexers. The system analyst must understand how the data-communications network is used in the present system so as to identify the need to revamp the network when the new system is installed.

- **Analyzing Outputs:** The outputs or reports should be scrutinized carefully by the system analysts in order to determine 'how well they will meet the organization's needs. The analysts must understand what information is needed and why, who needs it and when and where it is needed. Additional questions concerning the sequence of the data, how often the form reporting is used, how long is it kept on file, etc. must be investigated. Often, many reports are a carry-over from earlier days and have little relevance to current operations. Attempts should be made to eliminate all such reports in the new system.
  - **Reviewing Internal Controls:** A detailed investigation of the present information system is not complete until internal control mechanism is reviewed. Locating the control points helps the analyst to visualize the essential parts and framework of a system. An examination of the present system of internal controls may indicate weaknesses that should be removed in the new system. The adoption of advanced methods, procedures and equipments might allow much greater control over the data.
  - **Modeling the Existing System:** As the logic of inputs, methods, procedures, data files, data communications, reports, internal controls and other important items are reviewed and analyzed in a top down manner; the processes must be properly documented. The flow charting and diagramming of present information not only organizes the facts, but also helps to disclose gaps and duplication in the data gathered. It allows a thorough comprehension of the numerous details and related problems in the present operation.
  - **Undertaking Overall Analysis of the Existing system:** Based upon the aforesaid investigation of the present information system, the final phase of the detailed investigation includes the analysis of the present work volume; the current personnel requirements; the present costs-benefits of each of these must be investigated thoroughly.
- (b) **Information Technology (IT) Governance:** IT Governance refers to the system in which directors of the enterprise evaluate, direct and monitor IT management to ensure effectiveness, accountability and compliance of IT. The objective of IT Governance is to determine and cause the desired behavior and results to achieve the strategic impact of IT.

Benefits of IT Governance are as follows:

The benefits, which are achieved by implementing/improving governance or management of enterprise, IT would depend on the specific and unique environment of every enterprise. At the highest level, these could include:

- Increased value delivered through enterprise IT;
- Increased user satisfaction with IT services;
- Improved agility in supporting business needs;
- Better cost performance of IT;
- Improved management and mitigation of IT-related business risk;
- IT becoming an enabler for change rather than an inhibitor;
- Improved transparency and understanding of IT's contribution to the business;

- Improved compliance with relevant laws, regulations and policies; and
  - More optimal utilization of IT resources.
- (c) The requirements of Insurance Regulatory and Development Authority of India (IRDA) for System Controls are as follows:
- There should be Electronic transfer of Data without manual intervention. All Systems should be seamlessly integrated. Audit Trail required at every Data entry point. Procedures for reviewing and maintaining audit trail should be implemented.
  - The auditor should comment on the audit trail maintained in the system for various activities. The auditor should review the Front Office Systems (FOS), MOS (Mid Office Systems) and BOS (Back Office Systems) and confirm that the system maintains audit trail for data entry, authorization, cancellation and any subsequent modifications.
  - Further, the auditor shall also ascertain that the system has separate logins for each user and maintains trail of every transaction with respect to login ID, date and time for each data entry, authorization and modifications.



**MOCKTEST PAPER 1**  
**FINAL (OLD) COURSE: GROUP - II**  
**PAPER – 7: DIRECT TAX LAWS**

*Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Question in Division A, working notes are not required.*

*All questions relate to Assessment Year 2019-20, unless stated otherwise in the question.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

**Division A – Multiple Choice Questions**

**Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions in this division are compulsory.**

1. Mr. A, aged 59 years, won Rs. 60 lakh and Mr. B, aged 50 years, won Rs. 8 lakh from lotteries. Tax deductible at source under section 194B was duly deducted. Assuming that this is the only source of income of Mr. A and Mr. B for A.Y.2019-20, are Mr. A and Mr. B liable to pay advance tax for that year?
- (a) No, Mr. A and Mr. B are not liable to pay advance tax as tax deductible at source under section 194B has been fully deducted.
  - (b) Yes, Mr. A and Mr. B are liable to pay advance tax on the balance tax liability arising out of levy of higher education cess.
  - (c) Mr. A is liable to pay advance tax but Mr. B is not liable to pay advance tax
  - (d) Mr. B is liable to pay advance tax but Mr. A is not liable to pay advance tax

**(2 Marks)**

2. Mr. Vallish, employed as Manager with ABC Ltd. pays rent of Rs. 50,000 per month to his landlord. Which of the following statements are correct?
- (a) Mr. Vallish is liable to deduct tax@10% under section 194-I, since his annual rent exceeds Rs. 1,80,000.
  - (b) Mr. Vallish is liable to deduct tax@5% under section 194-IB every month, since he pays rent of Rs. 50,000 per month.
  - (c) Mr. Vallish is liable to deduct tax@5% under section 194-IB on the annual rent in the month of March, since he pays rent of Rs. 50,000 per month.
  - (d) Mr. Vallish is not liable to deduct tax at source

**(1 Mark)**

3. Mr. Sanjay, a resident, and Mr. Andrew, a British citizen and a non-resident in India, are both sports commentators deriving income of Rs. 5 lakh from sports commentaries in India for A.Y. 2019-20.
- (i) Tax is deductible u/s 194J from remuneration payable to Mr. Sanjay
  - (ii) Tax is deductible u/s 194E from remuneration payable to Mr. Andrew
  - (iii) Tax is deductible u/s 195 from remuneration payable to Mr. Andrew
  - (iv) Mr. Andrew is not required to file his return of income u/s 139, if tax deductible at source is fully deducted.
  - (v) Mr. Sanjay is not required to file his return of income u/s 139, if tax deductible at source is

fully deducted.

Which of the above statements are correct, assuming that this is the only source of income for Mr. Sanjay and Mr. Andrew?

- (a) (i), (ii) and (iv)
- (b) (i), (ii), (iv) and (v)
- (c) (i) and (iii)
- (d) (i), (iii) and (iv)

**(2 Marks)**

4. Mr. X is aggrieved by an order passed under section 143(3) by the Assessing Officer. Mr. Y is aggrieved by an order passed under section 272A by the Director General. What is the remedy available to Mr. X and Mr. Y and the time limit within which they should exercise the remedy?
- (a) Both Mr. X and Mr. Y have to file an appeal before Commissioner (Appeals) under section 246A within 30 days from the date on which the order sought to be appealed against is communicated to them.
  - (b) Both Mr. X and Mr. Y have to file an appeal before the Appellate Tribunal under section 253 within 60 days from the date on which the order sought to be appealed against is communicated to them.
  - (c) Mr. X has to file an appeal before Commissioner (Appeals) under section 246A within 30 days from the date of service of the notice of demand relating to the assessment. Mr. Y has to file an appeal before the Appellate Tribunal within 60 days from the date on which the order sought to be appealed against is communicated to him.
  - (d) Mr. Y has to file an appeal before Commissioner (Appeals) under section 246A within 60 days from the date on which the order sought to be appealed against is communicated to him. Mr. X has to file an appeal before the Appellate Tribunal within 30 days from the date of service of the notice of demand relating to the assessment.

**(2 Marks)**

5. Mr. Ram Mohan, a non-resident, operates an aircraft between Malaysia and Cochin. He received the following amounts while carrying on the business of operation of aircrafts for the year ended 31.3.2019:
- (i) Rs. 2 crores in India on account of carriage of passengers from Cochin.
  - (ii) Rs. 1 crore in India on account of carriage of goods from Cochin.
  - (iii) Rs. 3 crores in India on account of carriage of passengers from Malaysia.
  - (iv) Rs. 0.50 crore in Malaysia on account of carriage of passengers from Cochin.
  - (v) Rs. 1.30 crores in Malaysia on account of carriage of passengers from Malaysia.
  - (vi) Rs. 1.20 crore in Malaysia on account of carriage of goods from Malaysia.
  - (vii) Rs. 0.50 crore in Malaysia on account of carriage of goods from Cochin.

The total expenditure incurred by Mr. Ram Mohan for the purposes of the business during the year ending 31.3.2019 was Rs. 3 crores. What is the income of Mr. Ram Mohan chargeable to tax in India under the head "Profits and gains of business or profession" for the A.Y.2019-20?

- (a) Rs. 35 lakh
- (b) Rs. 30 lakh
- (c) Rs. 20 lakh
- (d) Rs. 47.50 lakh

**(2 Marks)**

6. Alpha Ltd., an Indian company, provides contract R & D services relating to generic pharmaceutical drug, to Beta Inc., a Swiss company which guarantees 17% of the total borrowings of Alpha Ltd. The aggregate value of such transactions entered into in the P.Y.2018-19 is Rs. 40 crores and the operating expenses are Rs. 30 crores. Assuming that Alpha Ltd. has exercised a valid option for application of safe harbour rules, what is the minimum operating profit margin to be declared by it, which can be accepted by the income-tax authorities?
- (a) Rs. 5.4 crores
  - (b) Rs. 6.30 crores
  - (c) Rs. 7.20 crores
  - (d) Rs. 9.60 crores

**(2 Marks)**

7. As per section 245N(a)(iv), advance ruling means determination by the Authority for Advance Rulings or decision whether an arrangement, which is proposed to be undertaken by a person is an impermissible avoidance arrangement as referred to in Chapter X-A or not. For making an application in this regard, the applicant has to be -
- (a) Only a Non-resident
  - (b) Only a Resident
  - (c) Only a Resident falling within such class or category of persons as notified by the Central Government
  - (d) Either a resident or a non-resident

**(1 Mark)**

8. Gamma Ltd. has distributed on 15/12/2018 dividend of Rs. 460 lakhs to its shareholders. On 12/11/2018, Gamma Ltd. has received dividend of Rs. 120 lakhs from its domestic subsidiary company Phi Ltd., on which Phi Ltd. has paid dividend distribution tax under section 115-O. Compute the additional income-tax payable by Gamma Ltd. under section 115-O.
- (a) Rs. 59,40,480
  - (b) Rs. 66,76,800
  - (c) Rs. 69,88,800
  - (d) Rs. 80,37,120

**(2 Marks)**

9. Mr. Hari has income of Rs. 52 lakhs under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction@100% of profits under section 80-IA for A.Y.2019-20. The profit from such business included in the business income is Rs. 35 lakhs. Compute the tax payable (rounded off) by Mr. Hari for A.Y.2019-20, assuming that he has no other income during the P.Y.2019-20 and credit for alternate minimum tax, if any, to be carried forward -
- (a) Rs. 3,35,400; AMT credit to be carried forward is Nil.
  - (b) Rs. 10,00,480; AMT credit to be carried forward is Rs. 6,65,080
  - (c) Rs. 11,00,530; AMT credit to be carried forward is Rs. 7,65,130
  - (d) Rs. 11,50,550; AMT credit to be carried forward is Rs. 8,15,150

**(2 Marks)**

10. A charitable trust was created on 1.4.2016 with the objective of relief of poor. It applied for registration in 1st November, 2017. The application was not disposed of by the Commissioner even after the expiry of period of 6 months stipulated under section 12AA(2). Which of the following statements are correct -
- (a) Since the application has not been disposed of by the Commissioner, the trust is not deemed to be registered and hence, is not entitled to benefit of exemption under section 11 and 12 for any of the assessment years
  - (b) Since the application has not been disposed of by the Commissioner within the stipulated period, the trust is deemed to be registered with effect from 1.4.2016, being the date of creation of trust, and is entitled to benefit of exemption under sections 11 and 12 w.e.f. A.Y.2017-18.
  - (c) Since the application has not been disposed of by the Commissioner within the stipulated period, the trust is deemed to be registered with effect from 1.11.2017, being the date of application for registration, and is entitled to benefit of exemption under sections 11 and 12 w.e.f. A.Y.2018-19.
  - (d) Since the application has not been disposed of by the Commissioner within the stipulated period, the trust is deemed to be registered with effect from 1.6.2018, being the date immediately following the expiry of the six month period, but is entitled to benefit of exemption under sections 11 and 12 w.e.f. A.Y.2018-19.

**(2 Marks)**

11. In the P.Y.2018-19, Mr. Ganguly, a resident individual aged 60 years, earned income from profession (computed) Rs. 1,45,000, winnings from card games Rs. 1,50,000 (gross). He also has interest of Rs. 40,000 on fixed deposit with banks and Rs. 9,000 on savings bank account with banks. He deposited Rs. 1,50,000 in PPF. What is the total income of Mr. Ganguly for P.Y.2018-19?
- (a) Rs. 1,45,000
  - (b) Rs. 1,50,000
  - (c) Rs. 1,85,000
  - (d) Rs. 1,90,000

**(1 Mark)**

12. Dinesh, a resident individual of age of 47 years, has not furnished his return of income for the A.Y. 2019-20. However, his total income for such year as assessed u/s 144 is Rs. 18 lakhs. Is penalty under section 270A attracted and if so, what is the quantum of penalty?
- (a) No; penalty under section 270A is not attracted since he has not filed his return of income, hence, this is not a case of underreporting or misreporting of income.
  - (b) Yes; penalty is Rs. 3,66,600, assuming it is a case of underreporting of income
  - (c) Yes; penalty is Rs. 1,83,300, assuming it is a case of underreporting of income
  - (d) Yes; penalty is Rs. 1,44,300, assuming it is a case of underreporting of income

**(1 Mark)**

13. The assessment of M/s. Epsilon Associates for A.Y.2017-18 was made u/s 143(3) on 28<sup>th</sup> July, 2019. The Assessing Officer added Rs. 3 lakh being 30% of Rs. 10 lakh, for non-deduction of tax at source and Rs. 4 lakh on account of unexplained investments. The assessee contested the addition on account of unexplained investments in appeal before Commissioner (Appeals). The appeal was decided against the assessee in December, 2019. What is remedy available to the assessee in respect of disallowance under section 40(a)?

- (a) The assessee can file an application for revision to the Commissioner under section 264
- (b) The assessee can file an application for rectification under section 154, if it is a mistake apparent from the record
- (c) The assessee can opt for either (a) or (b)
- (d) The assessee can neither opt for remedy stated in (a) nor for remedy stated in (b)

**(1 Mark)**

14. The Assessing Officer within his jurisdiction surveyed a popular Cyber Café at 1 a.m. in night for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. The Cyber Café is kept open for business every day between 2 p.m. and 2 a.m. He impounded and retained in his custody, books of account and other documents inspected by him, after recording his reasons for doing so, for 12 days. Which of the following statements are correct?

- (a) The Assessing Officer's action in entering the cyber café at 1 a.m. and impounding books of account and documents inspected by him are in order.
- (b) The Assessing Officer's action in entering the cyber café at 1 a.m. is not in order, since he can enter the cyber café only after sunrise but before sunset
- (c) The Assessing Officer's action in entering the cyber café at 1 a.m. and in impounding books of account and documents inspected by him are not in order, since he can enter the cyber café only after sunrise but before sunset and he does not have the power to impound books of account under section 133B
- (d) The Assessing Officer's action in entering the cyber café at 1 a.m. is in order but impounding books of account and documents inspected by him is not in order, since he does not have the power to impound books of account under section 133B

**(1 Mark)**

15. Mr. X made a fixed deposit of Rs. 12,000 with a non-banking finance company (NBFC) on 1.4.2018 in cash. Thereafter, he made another fixed deposit of Rs. 7,500 with the same NBFC on 1.8.2018 by bearer cheque. On 31.3.2019, he made yet another fixed deposit of Rs. 8,000 with the same NBFC by an account payee cheque. Which of the following statements are correct?

- (a) Penalty under section 271D is attracted at the time of acceptance of first deposit on 1.4.2018
- (b) Penalty under section 271D is attracted at the time of acceptance of second deposit on 1.8.2018
- (c) Penalty under section 271D is attracted at the time of acceptance of third deposit on 31.3.2019
- (d) Penalty under section 271D is not attracted.

**(1 Mark)**

16. Mr. Kamesh completed his studies in April, 2007 and started his export business in Mumbai in July 2007. He purchased a flat in Mizoram in the January, 2008, a plot of land in UAE in February, 2011 and a flat in New York in September, 2015. In April, 2019, the Assessing Officer issued notice under section 148 in respect of A.Y.2008-09 to A.Y.2018-19. Which of the statements is correct?

- (a) The action of the Assessing Officer is not correct, since notice u/s 148 can be issued only in respect of A.Y.2016-17 to A.Y.2018-19.
- (b) The action of the Assessing Officer is not correct, since notice u/s 148 can be issued only in respect of A.Y.2013-14 to A.Y.2018-19.

- (c) The action of the Assessing Officer is not correct, since notice u/s 148 can be issued only in respect of AY.2011-12 to AY.2018-19.
- (d) The action of the Assessing Officer in issuing notice u/s 148 in respect of AY.2008-09 to AY.2018-19 is correct, since notice u/s 148 can be issued within 16 years from the end of the relevant assessment year, in case income in relation to any asset outside India has escaped assessment. In this case, income chargeable to tax is deemed to have escaped assessment since Mr. Kamesh owns assets located outside India.

**(1 Mark)**

17. Mr. Rajesh is engaged in the profession of technical consultancy and his gross receipts for the P.Y.2018-19 is Rs. 45 lakhs. He does not maintain books of account. He is also a partner of a LLP, Rajesh LLP, which carries on the profession of technical consultancy. The gross receipts of Rajesh LLP during the P.Y.2018-19 is Rs. 48 lakhs. Which of the following statements are correct?
- (a) Mr. Rajesh and Rajesh LLP have to pay entire advance tax on or before 15<sup>th</sup> March, 2019
  - (b) Mr. Rajesh does not have to pay advance tax. However, Rajesh LLP has to pay the entire advance tax on or before 15<sup>th</sup> March.
  - (c) Mr. Rajesh does not have to pay advance tax. However, Rajesh LLP has to pay advance tax in four instalments.
  - (d) Mr. Rajesh has to pay entire advance tax on or before 15<sup>th</sup> March and Rajesh LLP has to pay advance tax in four instalments.

**(2 Marks)**

18. Mr. Rajan purchased 300 shares in Vaigai Ltd. on 12.1.2017 at a cost of Rs. 2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is Rs. 1,800. Mr. Vaigai sold all the shares of Cauvery Ltd. on 15.7.2018 for Rs. 3,200. Mr. Rajan's brother Mr. Ravi purchased 600 shares in Tapti Ltd. on 25.1.2017 at a cost of Rs. 1,900 per share. The FMV of the share as on 31.1.2018 is Rs. 2,400. Mr. Ravi sold all the shares of Tapti Ltd. on 31.1.2019 for Rs. 1,700 per share. What is the chargeable capital gains on sale of shares of Vaigai Ltd. and Tapti Ltd. in the hands of Mr. Rajan and Mr. Ravi, respectively, for A.Y. 2019-20?
- (a) Long-term capital gains of Mr. Rajan Rs. 2,10,000; Long-term capital loss of Mr. Ravi Rs. 4,20,000
  - (b) Long-term capital gains of Mr. Rajan Rs. 4,20,000; Long-term capital loss of Mr. Ravi Rs. 4,20,000
  - (c) Long-term capital gains of Mr. Rajan Rs. 4,20,000; Long-term capital loss of Mr. Ravi Rs. 1,20,000.
  - (d) Long-term capital gains of Mr. Rajan Rs. 2,10,000; Long-term capital loss of Mr. Ravi Rs. 1,20,000.

**(2 Marks)**

19. The Settlement Commission passed an order on 25.6.2018 under section 245D(4). The applicant noticed a mistake apparent from the record and filed an application for rectification on 3.7.2018. Under section 245D(6B), the Settlement Commission can amend its order on or before -
- (a) 25.12.2018
  - (b) 31.12.2018
  - (c) 3.1.2019
  - (d) 31.1.2019

**(1 Mark)**

20. Under which of the following methods, arm's length price shall be the arithmetical mean of all values included in the dataset, irrespective of the number of entries in the dataset. It may be assumed that the variation between the arm's length price computed and the transaction price is 5%.
- (a) Profit split method
  - (b) Resale price method
  - (c) Cost plus method
  - (d) Transactional net margin method

(1 Mark)

### Division B – Descriptive Questions

*Question No. 1 is compulsory*

*Attempt any four questions from the remaining five questions*

1. The statement of profit & loss of TrustMe Private Ltd., a resident company engaged in manufacturing, shows net profit of Rs. 77,00,000 for the financial year ended on 31<sup>st</sup> March, 2019, after debit/credit of the following items.
- A. Credited to the Statement of Profit and Loss:
- (i) Rent received from vacant land Rs. 2,05,000
  - (ii) Rent received (gross) from a commercial property owned by the company Rs. 4,30,000 (Tax deducted by tenant @ 10%)
  - (iii) Interest received on income tax refund Rs. 42,000
  - (iv) Profit on sale of unused land Rs. 2,00,000.
- B. Debited to the Statement of Profit and Loss:
- (i) Depreciation Rs. 11,75,000.
  - (ii) Donation of Rs. 70,000 paid to Swachh Bharat Kosh by accountpayee cheque.
  - (iii) Contribution to Political Party amounting to Rs. 1,50,000 paid in cash.
  - (iv) Payment made to transporter Rs. 60,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under section 44AE and not having more than 10 goods carriages at any time during the previous year).
  - (v) Bonus to employees Rs. 3,20,000 provided. However, payment was made on the occasion of Diwali festival on 2<sup>nd</sup> November, 2019.
  - (vi) Provision made for income-tax Rs. 4,20,000 (including interest of Rs. 70,000 thereon)
  - (vii) Contribution of Rs. 1,00,000 to a University approved and notified under section 35(1)(ii)
  - (viii) Loss of Rs. 1,80,000 incurred by way of trading in derivatives in shares in a recognized stock exchange.
- Additional information:**
- (1) The company during the financial year 2017-18 made a provision for an outstanding bill of Rs. 90,000 for purchase of raw material. Out of such outstanding amount, the company has paid Rs. 45,000 in cash on 20<sup>th</sup> August, 2018.

- (2) During the year, the company has issued 1,00,000 equity shares of face value of Rs. 10 each at premium of Rs. 90 each. The fair market value is Rs. 60 per share at the time of issue of shares.
- (3) Unused land which was sold in March, 2019 for Rs. 52,00,000 was acquired by the company in January, 2017 for Rs. 50,00,000.
- (4) Depreciation as per Income-tax Act, 1961 Rs. 18,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2018 is given below:
  - (a) Printers and Scanners Rs. 3,00,000
  - (b) EPABX Rs. 5,00,000
- (5) Additional depreciation on plant and machinery purchased for Rs. 34,00,000 on 18<sup>th</sup> November, 2018 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.
- (6) Provision for audit fee Rs. 1,00,000 was made in the books for the year ended on 31<sup>st</sup> March, 2018 without deducting tax at source.

Such fee was paid to auditors in September 2018 after deducting tax at source under section 194J and tax so deducted was deposited on 6<sup>th</sup> October, 2018.

Cost Inflation Index – FY 2016-17: 264; FY 2018-19: 280

Compute total income of the company for the Assessment Year 2019-20 stating reasons for treatment of each item. Ignore provisions relating to Minimum Alternate Tax. **(14 Marks)**

2. (a) M/s. Jeevan Pvt. Ltd., a closely held company, is in the business of growing rubber. The profit & loss account for the year ended 31-03-2019 of the company shows a net profit Rs. 37.65 crores after debiting depreciation of Rs. 30 crores.

The company has provided the following additional information:

- (i) The company has deposited Rs. 30 crores in a special account with NABARD on 29-04-2019.
- (ii) The company has brought forward losses of Rs. 6 crores pertaining to Assessment Year 2016-17. Mr. Alok who continuously held 60% of shares carrying voting power since incorporation of the company, had sold his entire holding to Mr. Bhola on 01-08-2018.
- (iii) The company had an accumulated balance of Rs. 200 crores in the special account with NABARD as on 01-04-2018. It has withdrawn Rs. 40 crores and utilized the same for the following purposes:
  - Purchase of a new machine for use in its operation Rs. 10 crores,
  - Purchase of office appliances for corporate office at Hyderabad Rs. 10 crores.
  - Purchase of computers and accessories Rs. 5 crores.
  - Construction of a godown at a cost of Rs. 1 crore near the rubber estate to store raw rubber.
  - Repairs to machinery Rs. 35 lakhs.
- (iv) Depreciation allowable as per Tax Audit Report is Rs. 28 crores.



Compute Taxable and Exempt income of M/s. Jeevan (P) Ltd. **(8 Marks)**

- (b) Compute total income and tax payable by Madhuvan, a senior citizen for the A.Y. 2019-20, from the following information:
- (i) Taxable income from a sole-proprietary concern in Ranchi Rs. 50 lakhs.
  - (ii) Share of profit from a partnership firm in Bhopal Rs. 30 lakhs.
  - (iii) Agricultural Income from rubber estate in Country T which has no DTAA with India, USD 70000 (Gross). Withholding Tax on the above income USD 10500.
  - (iv) Brought forward Business Loss of A.Y. 2016-17 in Country T was USD 10000 which is not permitted to be set off against other income as per the laws of that country.

**Note:** 1 USD = Rs 64 **(6 Marks)**

3. (a) (i) Seva charitable trust registered under section 12AA of the Income-tax Act, 1961 has, out of its income of Rs. 4,90,000 for the year ending 31.3.2019 and sale proceeds of a capital asset, held by it for less than 24 months, amounting to Rs. 10,60,000, purchased a building during the year ending 31.3.2019 for Rs. 15,50,000. The capital asset was sold during the year ending 31.3.2019. The building is held only for charitable purposes.

The trust claims that the purchase of the building amounts to application of its income for charitable purposes and that the capital gain arising on the sale of the capital asset is deemed to have been applied to charitable purposes. Is the claim made by the charitable trust valid in law? **(4 Marks)**

- (ii) A Mannat charitable trust registered under Section 12AA, for the previous year ending 31.3.2019, derived gross income of Rs. 21 Lacs, which consists of the following:

	(Rs. in Lacs)
(a) Income from properties held by trust (net)	10
(b) Income (net) from business (incidental to main objects)	4
(c) Voluntary contributions from public	7

The trust applied a sum of Rs. 11.60 lacs towards charitable purposes during the year which includes repayment of loan taken for construction of orphanage Rs. 3.60 lacs. Determine the taxable income of the trust for the assessment year 2019-20. **(4 Marks)**

- (b) (i) Examine the tax consequence for Assessment Year 2019-20 in respect of fees for technical services (FTS) received by Mr. Richard Grill, a non-resident, from Trim Ltd., an Indian company, in pursuance of an agreement approved by the Central Government, if -
- (I) India has no Double Tax Avoidance Agreement (DTAA) with Country F
  - (II) India has a DTAA with Country F, which provides for taxation of such FTS @5%.
  - (III) India has a DTAA with Country F, which provides for taxation of such FTS @15%.

Assume that Richard Grill is a resident of Country F and he has no fixed place of his profession in India. The technical services are utilised by Trim Ltd. for its business in Indore.

**(3 Marks)**

- (ii) If Zing Inc., a UK based company has a permanent establishment in India and the contract/agreement with Swing Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided -

	<b>Particulars</b>	<b>Amount</b>
(1)	Fees for technical services received from Swing Ltd.	Rs. 3.5 crore
(2)	Expenses incurred for earning such income	Rs. 10 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2005 to 2010	Rs. 5.5 crore
(4)	Expenses incurred for earning such income	Rs. 12 lakhs
(5)	Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]	Rs. 6 lakhs
(6)	Amounts paid by the PE to Head Office (not being in the nature of reimbursement of actual expenses)	Rs. 12 lakhs

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

**(3 Marks)**

4. (a) (i) T Ltd., a manufacturer of automobiles, sells premium model cars, the value of which ranges from above Rs. 10 lakh to Rs. 50 lakh and small cars, value of which ranges from Rs. 5 lakh upto Rs. 10 lakh to its dealers across the country. Examine whether T Ltd. is liable to collect tax at source under section 206C on sale of these cars to the different dealers across the country.

Also, examine the liability, if any, of dealers to collect tax at source on sale of these cars to the retail customers, if no part of the consideration is received in cash. **(4 Marks)**

- (ii) M/s Fitband Limited entered into an agreement for the warehousing of its products with Star Warehousing and deducted tax at source as per provisions of section 194C out of warehousing charges paid during the year ended on 31.03.2019. The Assessing Officer, while completing the assessment for A.Y. 2019-20 of Fitband Limited in April 2020, treated the warehousing charges as rent as defined in section 194-I and asked the company to make payment of difference amount of TDS with interest. It was submitted by the company that the recipient had already paid tax on the entire amount of warehousing charges and therefore, now the difference amount of TDS cannot be recovered. However, it will make the payment of due interest on the difference amount of TDS. Examine critically in the context of provisions contained in Income-tax Act, 1961 as to the correctness of the submission of M/s. Fitband Ltd. **(4 Marks)**

- (b) Examine whether transfer pricing provisions under the Income-tax Act, 1961 would be attracted in respect of the following cases -

- (i) Scientific research services provided by L Inc., an Italian company to X Ltd., an Indian company. L Inc. is a "specified foreign company" as defined in section 115BBD, in relation to X Ltd.
- (ii) Ms. Chiya, a resident Indian, is a director of T Ltd, an Indian company. T Ltd. pays salary of Rs. 40 lakhs per annum to Samya, who is Ms. Chiya's daughter.
- (iii) Transfer of technical knowhow by Y Ltd., an Indian company, to A Inc, a French company, which guarantees 15% of the borrowings of Y Ltd. **(6 Marks)**

5. Attempt either 5(a)(i) OR 5(a)(ii)

- (a) (i) The Commissioner of Income-tax issued notice to revise the order passed by an Assessing Officer under section 143. During the pendency of proceedings before the Commissioner, on the basis of material gathered during survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice. Examine whether the action of the Commissioner is justified as to the second notice. **(4 Marks)**

**OR**

- (ii) (I) In an order of assessment for the A.Y. 2018-19, the assessee noticed a mistake for which application under section 154 was moved and the order was rectified. Subsequently, the assessee moved further application for rectification under section 154 which was rejected by the Assessing Officer on the ground that the order once rectified cannot be rectified again. Examine the correctness or otherwise of the contention of the Assessing Officer. **(2 Marks)**

- (II) The return for A.Y.2019-20 was filed on time as per section 139(1) and proceedings were taken up for assessment under section 143(3). Later on, the assessee, noticed certain omissions and therefore filed a revised return on 20.4.2020. The Assessing Officer ignoring the revised return so filed framed the order on 25.4.2020. Is the action of Assessing Officer correct? Examine. **(2 Marks)**

- (iii) Theory Diagnostics is a diagnostic laboratory in Kanpur and has a branch at Lucknow. A survey under section 133A was conducted, consequent to which the assessee filed return of income. On the basis of certain incriminating documents and materials unearthed during the survey, a notice under section 148 was issued. Subsequently, the incomes were assessed for assessment years 2017-18 and 2018-19 under section 143(3) read with section 147.

The assessee raised additional jurisdictional grounds before the Appellate Tribunal. The assessee contended that for the relevant assessment years, the assessment was completed under section 143(3) read with section 147. However, a notice under section 143(2) was not issued by the Assessing Officer for those years. The Tribunal held that in view of section 292BB, the assessee's participation in the reassessment proceedings would condone the omission to issue a notice.

Discuss, with the aid of a Supreme Court case law, whether failure to issue notice under section 143(2) would vitiate the assessment notwithstanding the assessee's participation in the proceedings. Would section 292BB come to the rescue of the Revenue authority if they omit to issue notice under section 143(2)? Examine. **(4 Marks)**

- (b) For facilitating expeditious resolution of disputes relating to international transactions involving transfer pricing and foreign companies, the Income-tax Act, 1961, has provided for "alternate dispute resolution mechanism". In this context, you are required to answer the following:

- (I) What meanings have been assigned to "dispute resolution panel" and the "eligible assessee" under this mechanism?
- (II) When can a grievance for resolution be filed by an assessee?
- (III) What evidences are being considered by the panel to redress the grievance of the assessee? **(6 Marks)**

6. (a) (i) Examine the following cases and state whether the same are liable for penalty as per the provisions of the Income-tax Act, 1961.

- (I) Harish & Associates had made payment in excess of the limits prescribed to the contractors for carrying out labour job work at various sites, but had not deducted tax

at source as per section 194C.

- (II) Sunshine Hotels were asked by Income-tax Officer (CIB) to furnish details of all such tourists who stayed in their hotels and had paid bill amount in excess of Rs. 10,000. They have not furnished the requisite information in spite of various reminders.

**(4 Marks)**

- (ii) (I) The merger of a loss making company with a profit making one results in losses setting off profits, a lower net profit and lower tax liability for the merged company. Would the losses be disallowed by applying GAAR?
- (II) In the above facts, let us presume, the profit making company merges with a loss making one. This results in losses setting off profits, a lower net profit and lower tax liability for both companies taken together. Can this be examined under GAAR?

**(4 Marks)**

- (b) (i) LMN Ltd., an Indian company, is carrying on the business of manufacture and sale of Indo-western Apparels under the brand name "STYLE&SHINE". In order to expand its overseas sales/exports, it launched a massive advertisement campaign of its products. For the purpose of online advertisement, it utilized the services of Xylo Inc., a London based company. During the previous year 2018-19, LMN Ltd. paid Rs. 15 lakhs to Xylo Inc. for such services. Discuss the tax implications/TDS implications of such payment and receipt in the hands of LMN Ltd. and Xylo Inc., respectively, if Xylo Inc. has no permanent establishment in India.

**(3 Marks)**

- (ii) Mr. Sarthak, a non-resident, made an application to the Authority for Advance Rulings on 10.8.2018 in relation to a transaction proposed to be undertaken by him. On 13.9.2018, he decides to withdraw the said application. Can he withdraw the application on 13.9.2018? Examine.

**(3 Marks)**

**MOCKTEST PAPER 1**  
**FINAL (OLD) COURSE: GROUP – II**  
**PAPER – 7: DIRECT TAX LAWS**  
**SOLUTIONS**

**Division A – Multiple Choice Questions**

1. (c)
2. (d)
3. (c)
4. (c)
5. (a)
6. (c)
7. (d)
8. (c)
9. (c)
10. (d)
11. (b)
12. (c)
13. (b)
14. (a)
15. (d)
16. (c)
17. (d)
18. (d)
19. (d)
20. (a)

**Division B – Descriptive Choice Questions**

**1. Computation of Total Income of TrustMe Private Ltd. for the A.Y.2019-20**

	Particulars	Amount (Rs.)	
I	<b>Income from house property</b>		
	<b>[Rental income from commercial property]</b>		
	Gross Annual Value <sup>1</sup> /Net Annual Value <sup>2</sup>	4,30,000	
	Less: Deduction under section 24(a)		
	30% of Net Annual Value	<u>1,29,000</u>	
			3,01,000

<sup>1</sup> Rent received has been taken as the Gross Annual Value (GAV) in the absence of information relating to Municipal Value, Fair Rent and Standard rent.

<sup>2</sup> Since the question does not contain information about municipal taxes paid, the net annual value is the same as the GAV.

<b>II</b>	<b>Profits and gains of business and profession</b> Profits from manufacturing business [See Working Note below] Less: Set-off of losses from trading in derivatives in shares in a recognized stock exchange [allowed to be set-off against profits from the business of manufacturing as per section 70(1) since it is not speculative in nature [See Note below]	70,88,000  <u>1,80,000</u>	69,08,000
<b>III</b>	<b>Capital Gains</b> Sale consideration Less: Indexed Cost of Acquisition [Rs. 50,00,000 × 280/264] <b>Long-term capital loss to be carried forward to A.Y.2020-21 for set-off against long-term capital gains, if any, in that year</b>	52,00,000 <u>53,03,030</u> (1,03,030)	
<b>IV</b>	<b>Income from Other Sources</b> Rent received from vacant land Interest received on income-tax refund Excess of issue price of shares over the fair market value of shares is taxable as per section 56(2)(viib) in the case of TrustMe Private Ltd., not being a company in which public are substantially interested [Rs. 40 (i.e., Rs. 100 – Rs. 60) × 1,00,000 shares]	2,05,000 42,000 40,00,000  <u>          </u> –	42,47,000
	<b>Gross Total Income</b>		<b>1,14,56,000</b>
	<b>Less: Deductions under Chapter VI-A</b>		
	<b>Deduction under section 80G</b> Donation to Swachh Bharat Kosh [qualifies for 100% deduction – assuming that the same has not been spent in pursuance of corporate social responsibility under section 135(5) of the Companies Act, 2013]	70,000	
	<b>Deduction under section 80GGB</b> Contribution to Political Party [Not allowable as deduction since the contribution is made in cash]	Nil	70,000
	<b>Total Income</b>		<b>1,13,86,000</b>

**Working Note:**

**Computation of profits and gains from the business of manufacturing**

Particulars	Amount (Rs.)	
<b>Net profit as per statement of profit and loss</b>		77,00,000
<b>Add: Items debited but to be considered separately or to be disallowed</b>		
<b>B(ii) Donation paid to Swachh Bharat Kosh, considered separately</b> [Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]	70,000	
<b>B(iii) Contribution to political party</b> [Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable u/s 37]	1,50,000	

<p><b>B(iv) Payment to transport contractor</b>  [As per section 194C(6), no tax is required to be deducted at source since the payment is to a transport contractor not having more than 10 goods carriages at any time during the previous year and he has given a declaration to that effect along with his PAN. Hence, disallowance under section 40(a)(ia) for non-deduction of tax at source is not attracted. Also, since payment is made by account payee cheque, no disallowance under section 40A(3) is attracted].</p>	-				
<p><b>B(v) Bonus to employees</b>  [Since the payment is made after the due date of filing return of income, disallowance under section 43B is attracted]</p>	3,20,000				
<p><b>B(vi) Provision for income-tax (including interest of Rs. 70,000 thereon)</b>  [Not allowable as deduction. Disallowance under section 40(a)(ii) is attracted]</p>	4,20,000				
<p><b>B(viii) Loss from trading in derivatives in shares in a recognized stock exchange [See Note below]</b>  [Since loss from trading in derivatives in shares is not related to the business of manufacturing, the same is not incurred wholly and exclusively for this business, and hence, is not allowable as deduction under section 37 while computing profits from the business of manufacturing]</p>	1,80,000				
	11,40,000				
	88,40,000				
<p><b>Add: Cash Payment for purchase of raw material deemed as income</b>  Al(1) [Since the provision for outstanding bill for purchase of raw material has been allowed as deduction during the P.Y.2017-18, cash payment in excess of Rs. 10,000 against such bill in the P.Y.2018-19 would be deemed as income of P.Y.2018-19 as per section 40A(3A)]</p>	45,000				
	88,85,000				
<p><b>Less: Expenditure to be allowed</b>  B(i) &amp; Al(4) Depreciation  [Difference between the normal depreciation of Rs. 16.75 lakhs as per Income-tax Act, 1961 <b>[See Note below]</b> and depreciation charged to the statement of profit and loss of Rs. 11.75 lakhs].  <b>Note</b> – <sup>3</sup>Printers and scanners form an integral part of the computer system and they cannot be used without the computer. Hence, they are part of the computer system, they would be eligible for depreciation at the higher rate of 40% applicable to computers including computer software. However, EPABX is not a computer and is, hence, not entitled to higher depreciation@40%<sup>4</sup></p>	5,00,000				
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Particulars</th> <th style="text-align: right;">Rs.</th> </tr> </thead> <tbody> <tr> <td>Depreciation computed as per Income-tax Act, 1961</td> <td style="text-align: right;">18,00,000</td> </tr> </tbody> </table>	Particulars	Rs.	Depreciation computed as per Income-tax Act, 1961	18,00,000	
Particulars	Rs.				
Depreciation computed as per Income-tax Act, 1961	18,00,000				

<sup>3</sup> CIT v. BSES Yamuna Powers Ltd (2013) 358 ITR 47 (Delhi)

<sup>4</sup> Federal Bank Ltd. v. ACIT (2011) 332 ITR 319 (Kerala)

Less: Depreciation@40% wrongly provided in respect of EPABX = 40% of Rs. 5,00,000	<u>2,00,000</u>		
		16,00,000	
Add: Depreciation@15% on EPABX = 15% of Rs. 5,00,000	<u>75,000</u>		
<b>Correct Depreciation as per Income-tax Act, 1961</b>		<b>16,75,000</b>	
<b>AI(5) Additional depreciation on new plant and machinery</b>			
Since plant and machinery was purchased only on 18.11.2018, it was put to use for less than 180 days during the year. Hence additional depreciation is to be restricted to 10% (i.e., 50% of 20%) of Rs. 34 lakhs. <sup>5</sup>		3,40,000	
<b>AI(6) Audit Fees relating to P.Y.2017-18</b>			
[Rs. 30,000, being 30% of audit fees of Rs. 1,00,000 provided for in the books of account of F.Y.2017-18 would have been disallowed due to non-deduction of tax at source. Since tax has been deducted in September, 2018 and paid on 6.10.2018, the amount of Rs. 30,000 is deductible while computing business income of P.Y.2018-19].		30,000	
<b>B(vii) Contribution to University</b>			
[Contribution to a University approved and notified under section 35(1)(ii) would qualify for weighted deduction@150%. Since Rs. 1,00,000 has already been debited to the statement of profit and loss, the balance Rs. 50,000 has to be deducted while computing business income]		<u>50,000</u>	9,20,000
			79,65,000
<b>Less: Items credited to statement of profit and loss, but not includible in business income.</b>			
A(i) Rent received from vacant land [Chargeable to tax under the head "Income from other sources"]		2,05,000	
A(ii) Rent received from commercial property owned by the company [Chargeable to tax under the head "Income from house property"]		4,30,000	
A(iii) Interest received on income tax refund [Chargeable to tax under the head "Income from other sources"]		42,000	
A(iv) Profit on sale of unused land [Chargeable to tax under the head "Capital Gains"]		<u>2,00,000</u>	
			8,77,000
<b>Profits and gains from the business of manufacturing</b>			<b>70,88,000</b>

**Note:** As per section 43(5), an eligible transaction of trading in derivatives in shares in a recognized stock exchange is not a speculative transaction.

In this case, the company is engaged in the business of manufacturing and hence, the loss on account of trading in derivatives is not incurred wholly and exclusively in relation to such business and hence, has to be disallowed while computing profits from the business of manufacturing. Trading in derivatives in shares is also not incidental to the business of manufacturing. Therefore, it has to be

<sup>5</sup> Balance additional depreciation of Rs. 3.40 lakhs can be claimed in the next year i.e., A.Y.2020-21



assumed that the company is also carrying on the business of trading in derivatives in shares in addition to its manufacturing business.

In this case, the loss has to be disallowed at the first instance while computing income from the business of manufacturing since it is not wholly and exclusively incurred for the said business and thereafter, loss from trading in derivatives has to be set-off against the profits from manufacturing business applying the provisions of section 70(1) permitting inter-source set-off of losses.

2. (a) Computation of Taxable and Exempt Income of M/s Jeevan Pvt Ltd. for the A.Y. 2019-20

Particulars	Rs.
Net profit as per Profit and Loss Account	37,65,00,000
<b>Add: Excess depreciation as per books of account</b>	Rs.
Depreciation as per books of account	30,00,00,000
Less: Depreciation allowable as per the Income-tax Act, 1961	<u>28,00,00,000</u>
<b>Net profit before allowing deduction under section 33AB</b>	<b>39,65,00,000</b>
Less: Deduction under section 33AB would be the lower of:	
- <b>Amount deposited in Rubber Development Account</b> on or before 30.9.2019 [i.e., Rs. 30,00,00,000]	
- <b>40% of profits of such business</b> [i.e., Rs. 15,86,00,000, being 40% of Rs. 39,65,00,000]	<u>15,86,00,000</u>
<b>Net profit after allowing deduction under section 33AB</b>	<b>23,79,00,000</b>
<b>Add:</b> Amount withdrawn from special account with NABARD, which is deemed as profits and gains of business or profession	
(i) <b>Purchase of a new machine for use in its operation for Rs. 10 crores</b> , would <b>not</b> be deemed as profits and gains of business or profession, since the said amount is utilised as per the specified scheme.	Nil
(ii) <b>Purchase of office appliances for corporate office at Hyderabad for Rs. 10 crores</b> , out of the amount withdrawn from the deposit account, would be deemed as profits and gains of business or profession, since the said utilisation is not permissible.	10,00,00,000
(iii) <b>Rs. 5 crores utilised for purchase of computers and accessories is permissible</b> . Thus, such amount would <b>not</b> be deemed as profits and gains of business or profession.	Nil
(iv) <b>Rs. 1 crore utilised for construction of a godown near rubber estate to store raw rubber</b> , would <b>not</b> be deemed as profits and gains of business or profession, since the said amount is utilised as per the specified scheme.	Nil
(v) <b>Rs. 35 lakhs utilised for repairs to machinery</b> would not be deemed as profits and gains of business or profession, since the said amount is utilised as per the specified scheme.	Nil
<b>Note</b> - However, no deduction would be allowed in respect of such expenditure mentioned in (i), (iii), (iv) and (v) during the P.Y. 2018-19, since amount is spent out of the amount deposited in special account with NABARD, which has already been allowed as deduction in an earlier	

<i>assessment year.</i>	
(vi) The remaining amount of Rs. 13.65 crores {Rs. 40 crores less Rs. 26.35 crores [utilised above in (i) to (v)]}, which is <b>not</b> utilised during the previous year in which such amount is withdrawn, would be deemed as profits and gains of business or profession.	<u>13,65,00,000</u>
<b>Total Composite business profits</b>	<b>47,44,00,000</b>
Less: 65% of Rs. 47,44,00,000, being agricultural income exempt	<u>30,83,60,000</u>
<b>Business income</b>	<b>16,60,40,000</b>
Less: Brought forward business loss of Rs. 6 crores pertaining to A.Y.2016-17 not allowed to be set-off against the business profits of the P.Y. 2018-19, since as on 31.3.2019, the shares of M/s Jeevan Pvt Ltd carrying 60% (i.e., not less than 51%) of the voting power is held by Mr. Bholu and not by Mr. Alok, being the person who held such shares as on 31.03.2016, being the last day of previous year 2015-16, in which such loss was incurred.	-
<b>Business income chargeable to tax</b>	<b><u>16,60,40,000</u></b>

(b) Computation of total income and tax payable of Madhuvan for A.Y. 2019-20

Particulars	Rs.	Rs.
<b>Profits and gains from business and profession</b>		
Income from sole proprietary concern in India	50,00,000	
Share of profit from a partnership firm in India of Rs. 30 lakhs, is exempt	<u>Nil</u>	
Business profit	50,00,000	
Less: Business Loss in Country T (USD 10,000 x Rs. 64/USD)	<u>6,40,000</u>	43,60,000
<b>Income from Other Sources</b>		
Agricultural income from rubber estate in Country T, is taxable in India (USD 70,000 x Rs. 64/USD)		<u>44,80,000</u>
<b>Gross Total Income/ Total Income</b>		<b>88,40,000</b>
<b>Tax on total income</b>		
Tax on Rs. 88,40,000 [(30% x Rs. 78,40,000 plus Rs. 1,10,000) applicable for an individual, resident in India who is of the age of 60 years or more]		24,62,000
Add: Surcharge@10%, since total income exceeds Rs. 50 lakhs		<u>2,46,200</u>
		27,08,200
Add: Health & Education cess @4%		<u>1,08,328</u>
		28,16,528
Average rate of tax in India [i.e., Rs. 28,16,528/Rs. 88,40,000 x 100]	31.86%	
Average rate of tax in Country T [i.e., USD 10,500/USD 70,000]	15%	
Doubly taxed income [Rs. 44,80,000 – Rs. 6,40,000]	38,40,000	
Rebate under section 91 on Rs. 38,40,000 @15% (lower of average Indian tax rate and rate of tax in Country T]		<u>5,76,000</u>

<b>Tax payable in India [Rs. 28,16,528 – Rs. 5,76,000]</b>	<b>22,40,528</b>
<b>Tax payable (rounded off)</b>	<b>22,40,530</b>

**Note:**

Since Madhuvan, is resident in India for the P.Y.2018-19, his global income would be subject to tax in India. He would be allowed deduction under section 91 provided all the following conditions are fulfilled:-

- (a) He is a resident in India during the relevant previous year.
- (b) Income accrues or arises to him outside India during that previous year.
- (c) Such income is not deemed to accrue or arise in India during the previous year.
- (d) The income in question has been subjected to income-tax in Country T in his hands and he has paid tax on such income in Country T.
- (e) There is no agreement under section 90 for the relief or avoidance of double taxation between India and Country T, where the income has accrued or arisen.

Madhuvan is eligible for deduction under section 91 since all the conditions specified thereunder stand fulfilled by him during the previous year.

3. (a) (i) Section 11(1)(a) stipulates that in order to avail exemption of income derived from property held under trust wholly for charitable or religious purposes, the trust is required to apply for charitable or religious purposes, 85% of its income from such property. In this case, the trust has earned income of Rs. 4,90,000 for the year ended 31.3.2019. It has also earned short term capital gain from sale of capital asset for Rs. 10,60,000. The trust had utilized the entire amount of Rs. 15,50,000 for the purchase of a building meant for charitable purposes.

The Supreme Court, in *S.R.M. M. CT. M. Tiruppani Trust v. CIT (1998) 230 ITR 636*, ruled that the assessee-trust, which applied its income for charitable purposes by purchasing a building for use as a hospital, was entitled to exemption under section 11(1) in respect of such income.

The ratio of the decision squarely applies to the case of the charitable trust in question. Therefore, the charitable trust is justified in claiming that the purchase of the building amounted to application of its income for charitable purposes.

Under section 11(1A), where the whole of the sale proceeds of a capital asset held by a charitable trust is utilised by it for acquiring another capital asset, the capital gain arising therefrom is deemed to have been applied to charitable purposes and would be exempt. Section 11(1A) does not make any distinction between a long-term capital asset and a short-term capital asset. The claim of the charitable trust to the effect that the capital gain is deemed to have been applied to charitable purposes is tenable in law.

(ii) **Computation of taxable income of Mannat charitable trust**

	<b>Particulars</b>	<b>Rs.</b>
(i)	Income from property held under trust (net)	10,00,000
(ii)	Income (net) from business (incidental to main objects)	4,00,000
(iii)	Voluntary contributions from public	
	Voluntary contribution made with a specific direction towards corpus are alone to be excluded under section 11(1)(d). In this case, there is no such direction and hence, included.	<u>7,00,000</u>
		21,00,000

	Less: 15% of the income eligible for retention / accumulation without any conditions	3,15,000
		17,85,000
	Less: Amount applied for the objects of the trust	
	(i) Amount spent for charitable purposes (Rs. 11,60,000 - Rs. 3,60,000)	8,00,000
	(ii) Repayment of loan for construction of orphan home	3,60,000
	<b>Taxable Income</b>	<b>6,25,000</b>

- (b) (i) As per section 9(1)(vi)(b), income by way of fees for technical services payable by a resident is deemed to accrue or arise in India, except where the fees is payable, *inter alia*, in respect of services utilized in a business or profession carried on by such person outside India. In this case, since Trim Ltd. utilizes the technical services for its business in Indore, the fees for technical services payable by Trim Ltd. is deemed to accrue or arise in India in the hands of Mr. Richard Grill.

In accordance with the provisions of section 115A, where the total income of a non-corporate non-resident includes any income by way of royalty or fees for technical services other than the income referred to in section 44DA(1), received from an Indian concern in pursuance of an agreement made by him with the Indian concern and the agreement is approved by the Central Government, then, the special rate of tax at 10% of such fees for technical services is applicable. No deduction would be allowable under sections 28 to 44C and section 57 while computing such income.

Section 90(2) makes it clear that where the Central Government has entered into a DTAA with a country outside India, then, in respect of an assessee to whom such agreement applies, the provisions of the Act shall apply to the extent they are more beneficial to the assessee. Therefore, if the DTAA provides for a rate lower than 10%, then, the provisions of DTAA would apply.

- (I) In this case, since India does not have a DTAA with Country F, of which Richard Grill is a resident, the fees for technical services (FTS) received from Trim Ltd., an Indian company, would be taxable @10%, by virtue of section 115A.
- (II) In this case, the FTS from Trim Ltd. would be taxable @5%, being the rate specified in the DTAA, even though section 115A provides for a higher rate of tax, since the tax rates specified in the DTAA are more beneficial. However, since Richard Grill is a non-resident, he has to furnish a tax residency certificate from the Government of Country F for claiming such benefit. Also, he has to furnish other information, namely, his nationality, his tax identification number in Country F and his address in Country F.
- (III) In this case, the FTS from Trim Ltd. would be taxable @10% as per section 115A, even though DTAA provides for a higher rate of tax, since the provisions of the Act (i.e. section 115A in this case) are more beneficial.
- (ii) Where Zing Inc., a UK company, has a PE in India and rendering technical services is effectively connected with the PE in India.

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

Accordingly, expenses of Rs. 22 lakhs (Rs. 10 lakhs + Rs. 12 lakhs) incurred for earning fees for technical services of Rs. 9 crore (Rs. 3.5 crore + Rs. 5.5 crore) is allowable as

deduction therefrom. However, expenditure of Rs. 6 lakhs which is not incurred wholly and exclusively for the business of the PE and the amount of Rs. 12 lakhs paid by the PE to the Head Office is **not** allowable as deduction.

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

4. (a) (i) Section 206C(1F) provides for collection of tax at source@1% by the seller from the buyer, at the time of receipt of consideration for sale of motor vehicle, the value of which exceeds Rs. 10 lakhs. CBDT Circular No.22/2016 dated 8.6.2016 clarifies that this section has been inserted to cover all transactions of retail sales and accordingly, it will not apply to sale of motor vehicles by manufacturers to dealers. Hence, car manufacturers are not liable to collect tax at source under section 206C(1F).

In respect of sale of premium model cars (of value ranging above Rs. 10 lakhs and upto Rs. 50 lakhs) by dealers to retail customers, tax has to be collected at source@1% under section 206C(1F), even if no part of the consideration is received in cash.

As regards small cars of value ranging from Rs. 5 lakhs upto Rs. 10 lakhs, there is no requirement to collect tax at source.

- (ii) The first proviso to section 201 provides that the payer (including the principal officer of the company) who fails to deduct the whole or any part of the tax on the amount credited or payment made to a resident payee shall not be deemed to be an assessee-in-default in respect of such tax if such resident payee –

(1) has furnished his return of income under section 139;

(2) has taken into account such sum for computing income in such return of income; **and**

(3) has paid the tax due on the income declared by him in such return of income,

and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the resident payee.

However, where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a resident and is not deemed to be an assessee-in-default under section 201(1) as mentioned above, interest under section 201(1A)(i) i.e., @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such resident payee.

Therefore, M/s Fitband Limited shall not be required to pay the difference tax in case the above mentioned conditions are fulfilled. However, the company shall be liable to make payment of interest from the date on which such tax was deductible to the date of furnishing of return of income by Star Warehousing.

Therefore, the submission of the assessee company, in this case, is correct.

- (b) (i) Clause (i) of *Explanation* to section 92B amplifies the scope of the term “international transaction”. According to the said *Explanation*, international transaction includes, *inter alia*, provision of scientific research services. L Inc. is a specified foreign company in relation to X Ltd. Therefore, the condition of X Ltd. holding shares carrying not less than 26% of the voting power in L Inc. is satisfied, assuming that all shares carry equal voting rights. Hence, L Inc. and X Ltd. are deemed to be associated enterprises under section 92A(2). Since the provision of scientific research services by L Inc. to X Ltd. is an “international transaction” between associated enterprises, transfer pricing provisions are attracted in this case.

- (ii) In this case, salary payment has been made to a related person referred to in section 40A(2)(b) i.e., relative (i.e., daughter) of Mrs. Chiya, who is a director of T Ltd. However, with effect from A.Y.2018-19, section 92BA has been amended to exclude such transactions from the scope of "specified domestic transaction". Consequently, transfer pricing provisions would not be attracted in this case.
- (iii) The scope of the term "intangible property" has been amplified to include, *inter alia*, technical knowhow, which is a technology related intangible asset. Transfer of intangible property falls within the scope of the term "international transaction". Since A Inc., a French company, guarantees not less than 10% of the borrowings of Y Ltd., an Indian company, A Inc. and Y Ltd. are deemed to be associated enterprises under section 92A(2). Therefore, since transfer of technical knowhow by Y Ltd., an Indian company, to A Inc., a French company, is an international transaction between associated enterprises, the provisions of transfer pricing are attracted in this case.
5. (a) (i) The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of Explanation to section 263(1). According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the Explanation to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner,
- Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in Explanation (b) to section 263(1).
- (ii) (I) It has been held by the Apex Court in the case of *Hind Wire Industries Ltd. v. CIT (1995) 212 ITR 639* that the order once amended can also be rectified subsequently provided the mistake apparent from record is rectifiable under section 154. The Apex Court enlarged the scope of the words used in that section by stating that it does not necessarily mean the original order. It could be any order including the amended or rectified order. The action of the Assessing Officer is, therefore, incorrect.
- (II) The original return for A.Y.2019-20 was filed in time and the proceedings were already taken up for assessment under section 143(3). A revised return was filed by the assessee after the end of the relevant assessment year. The action of the Assessing Officer in making the assessment in disregard of the revised return filed on 20.4.2020 is correct because as per the provisions of section 139(5) the assessee can file the revised return only within the end of the relevant assessment year to which the return relates or before completion of the assessment, whichever is earlier.
- (iii) The issue under consideration in this case is, whether omission to issue notice under section 143(2) is a defect not curable in spite of section 292BB

This issue came up before the Apex Court in *Asstt. CIT v. Hotel Blue Moon (2010) 321 ITR 362*, wherein it was held that without the statutory notice under section 143(2), the Assessing Officer could not assume jurisdiction. In that case, the Assessing Officer recorded his inability to generate a notice due to certain reasons. Such defect cannot be cured subsequently, since it is not procedural but one that goes to the root of the jurisdiction. Even though the assessee had participated in the proceedings, in the absence of mandatory notice, section 292BB cannot help the Revenue officers who have no jurisdiction, to begin with. Section 292BB helps Revenue in countering claims of assessee who have participated in proceedings once a due notice has been issued.

Applying the rationale of the Supreme Court ruling to the case on hand, the failure to issue notice under section 143(2) would vitiate the assessment proceedings notwithstanding the assessee's participation in the proceedings. Section 292BB would not come to the rescue of the Revenue Authority if they omit to issue notice under section 143(2).

- (b) (I) The term "Dispute Resolution Panel" has been defined to mean a collegium comprising of three Principal Commissioners or Commissioners of Income-tax constituted by the Board for this purpose.

The term "Eligible Assessee" means any person in whose case the variation referred to in section 144C(1) in the income or loss returned arises as a consequence of the order of the Transfer Pricing Officer passed under section 92CA(3) and any foreign company.

- (II) The Assessing Officer shall forward a draft of the proposed order of assessment to the eligible assessee and on receipt of such order, the eligible assessee shall, within thirty days of the receipt of the draft order, file his acceptance of the variations to the Assessing Officer or file his objections, if any, to such variation, with the Dispute Resolution Panel and the Assessing Officer.

- (III) The Dispute Resolution Panel shall, in a case where any objections are received, take into consideration:-

- (a) the draft order
- (b) the objections filed by the assessee
- (c) the evidence furnished by the assessee
- (d) the report, if any, of the Assessing Officer, Valuation Officer or Transfer Pricing Officer or any other authority
- (e) the records relating to the draft order
- (f) the evidence collected by, or caused to be collected by it
- (g) the result of any enquiry made by or caused to be made by it,

and issue such directions, as it thinks fit, for the guidance of the Assessing Officer to enable him to complete the assessment.

6. (a) (i) (I) Penalty under section 271C is attracted for failure to deduct tax at source. The penalty would be a sum equal to the amount of tax which such person has failed to deduct. Such penalty can be imposed only by the Joint Commissioner. Therefore, Harish & Associates shall be liable for penalty under section 271C equal to the amount of tax which they have failed to deduct under section 194C from the payments made to the contractors. The penalty would be in addition to the disallowance of 30% of expenditure/payment under section 40(a)(ia).
- (II) Section 133(6) empowers the Income-tax authority to require any person to furnish information in relation to such points or matters which will be useful for or relevant to any enquiry or proceeding under the Act. Failure on the part of an assessee to furnish

the information in relation to such points or matters as required makes him liable for penalty under section 272A(2) of Rs. 100 for every day during which the failure continues.

**Note** – In a case where no proceeding is pending, the Income-tax authority can exercise this power only after obtaining the approval of the Principal Director/Director or Principal Commissioner/Commissioner as the case may be. In this case, it is presumed that the Income-tax authority has obtained the approval of the Principal Director/Director or Principal Commissioner/ Commissioner before exercising this power.

- (ii) (I) As regards setting off of losses, the provisions relating to merger and amalgamation already contain specific anti-avoidance safeguards. Therefore, GAAR need not be invoked when SAAR is applicable, though as per *CBDT Circular No. 7/2017 dated 27.01.2017*, GAAR and SAAR can co-exist.
  - (II) In case of merger of a profit-making company with loss making company, there is no specific anti-avoidance safeguards. However, since such merger would be under the order of High Court, GAAR would not be invoked if the High Court has explicitly and adequately considered the tax implication while sanctioning the merger scheme.
- (b) (i) Chapter VIII of the Finance Act, 2016, "Equalisation Levy", provides for an equalisation levy of 6% of the amount of consideration for specified services received or receivable by a non-resident not having permanent establishment in India, from a resident in India who carries out business or profession, or from a non-resident having permanent establishment in India.
- "Specified Service" means
- (1) online advertisement;
  - (2) any provision for digital advertising space or any other facility or service for the purpose of online advertisement and
  - (3) any other service as may be notified by the Central Government.

However, equalisation levy shall not be levied-

- where the non-resident providing the specified services has a permanent establishment in India and the specified service is effectively connected with such permanent establishment.
- the aggregate amount of consideration for specified service received or receivable during the previous year does not exceed Rs. 1 lakh.
- where the payment for specified service is not for the purposes of carrying out business or profession

In the present case, equalisation levy @6% is chargeable on the amount of Rs. 15,00,000 received by Xylo Inc., a non-resident not having a PE in India from LMN Ltd., an Indian company. Accordingly, LMN Ltd. is required to deduct equalisation levy of Rs. 90,000 i.e., @6% of Rs. 15 lakhs, being the amount paid towards online advertisement services provided by Xylo Inc., a non-resident having no permanent establishment in India. Non-deduction of equalisation levy would attract disallowance under section 40(a)(ib) of 100% of the amount paid while computing business income.

- (ii) Section 245Q(3) of the Income-tax Act, 1961 provides that an applicant, who has sought for an advance ruling, may withdraw the application within 30 days from the date of the application. Since more than 30 days have elapsed from the date of application by Mr. Sarthak to the Authority for Advance Rulings, he cannot withdraw the application.



However, the Authority for Advance Rulings (AAR), in *M.K. Jain AAR No.644 of 2004*, has observed that though section 245Q(3) provides that an application may be withdrawn by the applicant within 30 days from the date of the application, this, however, does not preclude the AAR from permitting withdrawal of the application after the said period with its permission, if the circumstances of the case so justify.

**MOCK TEST PAPER 1**  
**FINAL (OLD) COURSE GROUP II**  
**PAPER 8: INDIRECT TAX LAWS**

**Maximum Marks: 100 Marks**

**Time Allowed: 3 Hours**

Notes:

- (i) Working Notes should form part of the answer. However, in answers to Question in Division A, working notes are not required.
- (ii) Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note.
- (iii) All questions should be answered on the basis of position of (i) GST law as amended up to 30<sup>th</sup> April, 2019 and (ii) customs law as amended by the Finance Act, 2018 and notifications/circulars issued till 30<sup>th</sup> April, 2019.
- (iv) 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.

**Division A: Multiple Choice Questions (30 marks)**

**(Questions nos. 1-10 are of 2 marks each and 11- 20 are of 1 marks each)**

**Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions in this division are compulsory.**

1. State which of the following statement is incorrect:
  - (i) An agent, supplying goods on behalf of principal where invoice is issued in the name of principal, is required to get compulsorily registered under GST.
  - (ii) Persons who are required to deduct tax under section 51, whether or not separately registered under this Act are compulsory required to get registered under GST without any threshold.
  - (iii) Every person supplying online information and database access or retrieval services from a place outside India to a registered person in India is compulsory required to get registered under GST without any threshold.
  - (iv) Persons who supply services, other than supplies specified under sub-section (5) of section 9, through such electronic commerce operator who is required to collect tax at source under section 52 are compulsory required to get registered under GST without any threshold.
  - (a) (i), (ii)
  - (b) (iii), (iv)
  - (c) (i), (iii), (iv)
  - (d) None of the above
2. M/s. Jolly Electronics (P) Ltd., is an authorized dealer of M/s. GG Micro Ltd., located and registered in Lucknow, Uttar Pradesh. It has sold following items to Mr. Alla Rakha (a consumer):

Product	Amount (Rs.)
Refrigerator (500 litres) taxable @ 18%	40,000/-
Stabilizer for refrigerator taxable @ 12%	5,000/-

LED television (42 inches) taxable @ 12%	30,000/-
Split air conditioner (2 Tons) taxable @ 28%	35,000/-
Stabilizer for air conditioner taxable @12%.	5,000/-
Total value	1,15,000/-

M/s. Jolly Electronics (P) Ltd. has given a single invoice, indicating price of each item separately to Mr. Alla Rakha. Mr. Alla Rakha, has given a single cheque of Rs. 1,00,000/- for all the items as a composite discounted price. State the type of supply and the tax rate applicable on the same.

- (a) Composite supply; Highest tax rate applicable to split air conditioner, i.e. 28%
  - (b) Mixed supply; Highest tax rate applicable to split air conditioner, i.e. 28%
  - (c) Supply other than composite and mixed supply; Highest tax rate applicable to split air conditioner i.e. 28%
  - (d) Supply other than composite and mixed supply; respective tax rate applicable to each item
3. Which of the following statements is correct while issuing a tax invoice?
- (i) Place of supply in case of inter-State supply is not required to be mentioned
  - (ii) The power of attorney holder can sign the tax invoice in case the taxpayer or his authorised representative has been travelling abroad
  - (iii) Quantity is not required to be mentioned in case of goods when goods are sold on "as is where is basis"
  - (iv) Description of goods is not required to be given in case of mixed supply of goods
- (a) (ii), (iii)
  - (b) (i), (ii), (iii)
  - (c) None of the above
  - (d) All of the above
4. Which of the following activity is taxable under GST?
- (i) Supply of food by a hospital to patients (not admitted) or their attendants or visitors.
  - (ii) Transportation of passengers by non-air-conditioned railways
  - (iii) Services by a brand ambassador by way of folk dance performance where consideration charged is Rs. 1,40,000.
  - (iv) Transportation of agriculture produce by air from one place to another place in India
  - (v) Services by way of loading, unloading, packing, storage or warehousing of rice
  - (vi) Service provided by GTA where consideration charged for transportation of goods for a single carriage is Rs. 900
- (a) (i), (v), (vi)
  - (b) (iii), (iv), (v)
  - (c) (i), (iii), (iv)
  - (d) (iv), (v)
5. In which of the following supplies of goods and services made exclusively to Government departments, agencies etc. and persons notified under section 51 of the CGST Act, 2017, TDS is required to be deducted?

- (i) Health Department executed a contract with a local supplier to supply "medical grade oxygen" of Rs.2.6 lakh (including GST) and is making full payment.
- (ii) Government school is making a payment of Rs.3.5 Lakh to a supplier for supply of cooked food as mid-day meal under a scheme sponsored by Central/State Government
- (iii) Municipal Corporation of Kolkata purchases a heavy generator from a supplier in Delhi. Now, it is making payment of Rs.5 lakh and IGST @18% on Rs.5 lakh for such purchase.
- (iv) Finance Department is making a payment of Rs.3 lakh (including GST) to a supplier of 'printing & stationery'.

Assume all other conditions for deduction of TDS are fulfilled.

- (a) (i), (ii) and (iii)
  - (b) (ii), (iii) and (iv)
  - (c) Only (i) and (ii)
  - (d) Only (iii) and (iv)
6. Rupam wishes to file an appeal to Appellate Tribunal. In which of the following cases, the Appellate Tribunal cannot refuse to admit his appeal?
- i. Amount of tax/ ITC or difference in tax/ difference in ITC involved exceeds Rs. 50,000
  - ii. Amount of fine, fee or penalty determined by the order exceeds Rs. 50,000
  - iii. Amount of tax/ ITC or difference in tax/ difference in ITC involved is Rs. 50,000
  - iv. Amount of fine, fee or penalty determined by the order is Rs. 50,000
  - v. Amount of tax/ ITC or difference in tax/ difference in ITC involved is less than Rs. 50,000
  - vi. Amount of fine, fee or penalty determined by the order is less than Rs. 50,000
- (a) i. and ii.
  - (b) i. and iii.
  - (c) ii. and iv.
  - (d) v. and vi.
7. State which of the following statement is correct:
- (i) Services by any artist by way of performance in folk or classical art forms of music, dance, or theatre as a brand ambassador if the consideration charged for such performance is not more than Rs. 150,000/- is exempt.
  - (ii) Services of life insurance business under Life micro-insurance product as approved by the Insurance Regulatory and Development Authority, having minimum amount of cover of Rs. 2,00,000/- is exempt
  - (iii) Service by an acquiring bank, to any person in relation to settlement of an amount upto Rs. 2,500/- in a single transaction transacted through credit card, debit card, charge card or other payment card service is exempt.
  - (iv) Services provided by a goods transport agency by way of transport in a goods carriage of, goods, where gross amount charged for the transportation of goods on a consignment transported in a single carriage is Rs. 2250/-, is exempt.

Your options are-

- (a) (i)

- (b) (ii), (iii)
- (c) (ii), (iii), (iv)
- (d) None of the above

8. M/s. Shahrukh Beedi Company (P) Ltd., is a manufacturer of cigarettes. It has been registered under GST in the State of West Bengal.

The turnover of the company from the period April, 2018 to March, 2019 is Rs. 90,00,000/-. The Excise duty paid on the cigarettes removed is Rs. 10,00,000/-. CGST and SGST paid on the cigarettes is Rs. 18,00,000/-.

The company also recovered actual freight of Rs. 5,00,000/- on the supply of cigarettes so made during the financial year 2018-19, and also charged CGST/ SGST thereon. The company paid RCM @ 5% while availing the services of GTA of Rs. 5,00,000/-.

Compute the aggregate turnover of M/s. Shahrukh Beedi Company (P) Ltd.,

- (a) Rs. 90,00,000/-
  - (b) Rs. 1,00,00,000/-
  - (c) Rs. 1,18,00,000/-
  - (d) Rs. 1,05,00,000/-
9. Mr. Prabhu Deva, registered under GST in Mumbai, is in the business of trading of marble handicraft items domestically as also exporting the same. His annual turnover and input tax details are as follows:

	Turnover	Tax paid on	input tax
Taxable goods	1,25,00,000/-	12,50,000/-	
Exported goods	75,00,000/-	5,50,000/-	
Exempt goods	50,00,000/-	5,00,000/-	

Mr. Prabhu Deva exported the goods under LUT without payment of IGST.

Now, Mr. Prabhu Deva seeks your help in calculating the amount of refund of ITC, which he is eligible to claim.

- (a) 18,00,000/-
  - (b) 6,75,000/-
  - (c) 5,40,000/-
  - (d) 6,90,000/-
10. State whether the following statements are true or false:
1. Zero rated supply means supply of any goods or services or both which attracts nil rate of tax.
  2. Exempt supply means export of goods or services or both, or supply of goods or services or both to a Special Economic Zone developer or a Special Economic Zone unit.
  3. Non-taxable supply means supply of goods or services or both which is not leviable to tax under CGST Act, 2017 but leviable to tax under the Integrated Goods and Services Tax Act, 2017.
  4. ITC may be availed for making zero rated supply of exempt goods.
- (a) False, False, False, True
  - (b) True, False, False, False

- (c) True, True, False, False
- (d) False, False, False, False
11. M/s. Raman Plastics is a manufacturer of plastic toys. It is registered person under GST in Shimla, Himachal Pradesh.
- It procures its raw materials from Punjab. During the month of April-2019, it purchased material of Rs. 35.00 Lakh and paid IGST thereon amounting to Rs. 6.30 Lakh. It supplied 30% of its production in the State of Jammu and Kashmir, whereas the 70% of its production was supplied taxable @ 0.1% to a merchant exporter during the month of Apr-2019.
- The returns for the month of April, 2019 were duly filed in time. The last date upto which the taxpayer can claim refund of input tax credit on account of inverted duty structure is
- (a) 20-Apr-2021
- (b) 20-May-2021
- (c) 31-Mar-2022
- (d) 20-Apr-2020
12. Banke Bihari (Pedewala), is a famous sweets manufacturer, located and registered in Mathura, Uttar Pradesh. He received an order for 200 Kg. of sweets on 2nd May, 2019 from M/s. Ghoomghoom Travels (P) Ltd., located and registered in same locality of Mathura for a total consideration of Rs. 1,00,000/-. All 200 Kg. sweets were delivered to M/s. Ghoomghoom Travels (P) Ltd. on 5th May, 2019, but without invoice, as accountant of Mr. Banke Bihari was on leave on that day. However, the invoice was raised for the same on 6th May, 2019, when the accountant joined the office after leave. Payment in full was made on 7th May, 2019.
- Determine the time of supply of goods in this case.
- (a) 2<sup>nd</sup> May, 2019
- (b) 5<sup>th</sup> May, 2019
- (c) 6<sup>th</sup> May, 2019
- (d) 7<sup>th</sup> May, 2019
13. Aflaton Spares (P) Ltd., located and registered in Haryana, supplied spare parts (FOB basis) to Mr. Laxmi Khurana, an unregistered person, located in Rajasthan. Mr. Laxmi Khurana booked the courier himself with Black Dart Courier (P) Ltd., registered in Delhi for delivery in Rajasthan. Black Dart Courier (P) Ltd. picked up the goods from Haryana and delivered the courier in Rajasthan while passing through the State of Uttar Pradesh.
- Determine the place of supply of service provided by Black Dart Courier (P) Ltd. to Mr. Laxmi Khurana:
- (a) Haryana
- (b) Delhi
- (c) Rajasthan
- (d) Uttar Pradesh
14. Sukanya, a registered supplier, failed to pay the GST amounting to Rs. 5,000 for the month of January, 20XX. The proper officer imposed a penalty on Sukanya for failure to pay tax. Sukanya believes that it is a minor breach and in accordance with the provisions of section 126 of the CGST Act, 2017, no penalty is imposable for minor breaches of tax regulations. In this regard, which of the following statements is true?

- (a) Penalty is leviable on Sukanya since the breach is considered as a 'minor breach' only if amount of tax involved is less than Rs. 5,000
  - (b) Penalty is not leviable on Sukanya since the breach is considered as a 'minor breach' if amount of tax involved is upto Rs. 5,000
  - (c) Penalty is leviable on Sukanya since the breach is considered as a 'minor breach' only if amount of tax involved is Nil.
  - (d) None of the above.
15. Mr. A, a sole proprietor, has to appear before the Appellate Authority. He decides to appear by an authorized representative. Which of the following persons can be appointed as 'authorized representative' of Mr. A under GST law?
- (a) Sohan, his son, who has been dismissed from a Government service lately.
  - (b) Rohan, a Company Secretary, who has been adjudged insolvent.
  - (c) Mukul, a practicing High Court advocate.
  - (d) All of the above.
16. Which of the following statement(s) is/are correct?
- (i) Special exemption under section 25 of the Customs Act is granted by issuing a notification;
  - (ii) General exemption under section 25 of the Customs Act is granted by issuing an order;
  - (iii) Special exemption is required to be published in official gazette;
  - (iv) General exemption is not required to be published in official gazette.
- (a) All of above
  - (b) None of above
  - (c) Both (i) and (ii)
  - (d) (ii) and (iv)
17. Countervailing duty under section 9 of the Customs Tariff Act shall not be levied unless it is determined that:
- (i) Subsidy relates to export performance;
  - (ii) Subsidy relates to use of domestic goods over imported goods in export article;
  - (iii) Subsidy is conferred on all persons engaged in the manufacture of export article.
- (a) All of above
  - (b) Only (iii)
  - (c) (ii) and (iii)
  - (d) (i) and (ii)
18. Anti-Dumping duty is calculated as
- (a) Higher of margin of dumping or injury margin;
  - (b) Lower of margin of dumping or injury margin;
  - (c) Higher of export price or normal value;
  - (d) Lower of export price or normal value

19. Read the following and choose the correct option:
- Indian customs waters extend up to 12 nautical miles;
  - Indian customs waters extend up to 24 nautical miles;
  - Indian customs waters extend up to exclusive economic zone of India;
  - Indian customs waters include territorial waters and extend up to 200 nautical miles.
- Only (ii)
  - (iii) and (iv)
  - (ii) and (iv)
  - Only (iv)
20. The taxable event under the Customs Act, 1962 is:
- Import of goods into India/ export of goods from India;
  - Supply of goods into India/ Supply of goods from India to outside India;
  - Sale of goods into India/ Sale of goods outside India;
  - Manufacture of goods into India for supply outside India.

**Division B: Descriptive Questions (70 Marks)**

**Question no. 1 is compulsory. Attempt any four questions out of the remaining five questions.**

1. Power Engineering Pvt. Ltd., a registered supplier, is engaged in providing expert maintenance and repair services for large power plants that are in the nature of immovable property, situated all over India. The company has its Head Office at Bangalore, Karnataka and branch offices in other States. The work is done in the following manner.
- The company has self-contained mobile workshops, which are container trucks fitted out for carrying out the repairs. The trucks are equipped with items like repair equipments, consumables, tools, parts etc. to handle a wide variety of repair work.
  - The truck is sent to the client location for carrying out the repair work. Depending upon the repairs to be done, the equipment, consumables, tools, parts etc. are used from the stock of such items carried in the truck.
  - In some cases, a stand-alone machine is also sent to the client's premises in such truck for carrying out the repair work.
  - The customer is billed after the completion of the repair work depending upon the nature of the work and the actual quantity of consumables, parts etc. used in the repair work.
  - Sometimes the truck is sent to the company's own location in other State(s) from where it is further sent to client locations for repairs.

Work out the GST liability [CGST & SGST or IGST, as the case may be] of Power Engineering Pvt. Ltd., Bangalore on the basis of the facts as described, read with the following data for the month of November 20XX.

S. No.	Particulars	Rs.
A	Truck sent to own location in Tamil Nadu	
	(i) Value of items contained in the truck - Rs. 3,00,000	
	(ii) Value of truck - Rs. 25,00,000	



B.	Truck sent to a client location in Tamil Nadu for carrying out repairs. Stand-alone machine is also sent in the truck to client location for repairs (i) Value of items contained in the truck – Rs. 2,85,000 (ii) Value of stand-alone machine - Rs. 4,00,000 (iii) Value of truck - Rs. 20,00,000 (Billing for repairs to be done afterwards depending upon the actual items used)	
C.	Truck sent to a client location in Karnataka for carrying out repairs (i) Value of items contained in the truck - Rs. 1,06,000 (ii) Value of truck - Rs. 20,00,000 (Billing for repairs to be done afterwards depending upon the actual items used)	
D.	Invoices raised for repair work carried out in Tamil Nadu [including the invoice for repair work done in 'B'] -	70,00,000
E.	Invoices raised for repair work carried out in Karnataka [including the invoice for repair work done in 'C']	12,00,000

Also, specify the document(s), if any, which need to be issued by Power Engineering Pvt. Ltd., Bangalore for the above transactions.

All the given amounts are exclusive of GST, wherever applicable. Assume the rates of taxes to be as under:

Items used for repairs		
CGST – 6%	SGST – 6%	IGST – 12%
Container truck, Stand-alone machines		
CGST – 2.5%	SGST – 2.5%	IGST – 5%
Works contract for repairs and maintenance of immovable property		
CGST – 9%	SGST – 9%	IGST – 18%

You are required to make suitable assumptions, wherever necessary. **(14 Marks)**

2. (a) Determine whether GST is payable in case of each of the following independent services provided by the registered persons:
- (1) Fees charged from office staff for in-house personality development course conducted by Markanday College - Rs. 80,000. Markanday College provides education as a part of a curriculum for obtaining an engineering degree recognised by law.
  - (2) Bus fees collected from students by Starward College - Rs. 3,500 per month. Starward College provides education as a part of a curriculum for obtaining an engineering degree recognised by law.
  - (3) Housekeeping service provided in the Smart Kids school, a play school by M/s. Spick & Span - Rs. 25,000 per month.
  - (4) Global link supplied "Tracing Alphabets", an online educational journal, to Kidzee School - Rs. 4,000. The Kidzee School used the same for its students of UKG class. **(5 Marks)**
- (b) Mr. X, a money changer, has exchanged US \$ 10,000 to Indian rupees @ Rs. 64 per US \$. Mr. X wants to value the supply in accordance with rule 32(2)(b) of CGST Rules.  
Determine the value of supply made by Mr. X. **(4 Marks)**
- (c) From the following particulars, calculate total customs duty and integrated tax payable:

- (i) Date of presentation of bill of entry: 20.6.20XX [Rate of BCD 20%; Inter-bank exchange rate: Rs. 61.60 and rate notified by CBIC Rs. 70].
- (ii) Date of arrival of aircraft in India: 30.6.20XX [Rate of BCD 10%; Inter-bank exchange rate: Rs. 61.80 and rate notified by CBIC Rs. 73.00].
- (iii) Rate of Integrated tax leviable under section 3(7) of the Customs Tariff Act: 12%. Ignore GST Compensation Cess.
- (iv) CIF value 2,000 US Dollars; Air freight 500 US Dollars, Insurance cost 100 US Dollars [Landing charges not ascertainable].
- (v) Social Welfare Surcharge 10%. **(5 Marks)**
3. (a) I buy a set of modular furniture from a retail store. Invoice is issued to me and I make the payment. The furniture is to be delivered to me later in the week when a technician is available to assemble and install it. The next day the rate of tax applicable to modular furniture is revised upward, and the store sends me a supplementary invoice with the delivery note accompanying the furniture to collect the differential amount of tax.
- Is this correct on store's part? **(4 Marks)**
- (b) The place of supply in relation to immovable property is the location of immovable property. Suppose a road is constructed from Delhi to Mumbai covering multiple states.
- What will be the place of supply of construction services? **(5 Marks)**
- (c) An importer imported certain inputs for manufacture of final product. A small portion of the imported inputs were damaged in transit and could not be used in the manufacture of the final product. An exemption notification was in force providing exemption in respect of specified raw materials imported into India for use in manufacture of specified goods, which was applicable to the imports made by the importer in the present case.
- Briefly examine whether the importer could claim the benefit of the aforesaid notification in respect of the entire lot of the inputs imported including those that were damaged in transit.
- (5 Marks)**
4. (a) A taxable person has mistakenly paid CGST and SGST for an inter-State supply. Subsequently, when he discovers the same, can he adjust the IGST liability against the wrongly paid CGST and SGST? **(3 Marks)**
- (b) The aggregate turnover of Sangri Services Ltd., Delhi exceeded Rs. 20 lakh on 12<sup>th</sup> August. He applied for registration on 3<sup>rd</sup> September and was granted the registration certificate on 6<sup>th</sup> September. You are required to advise Sangri Services Ltd. as to what is the effective date of registration in its case. It has also sought your advice regarding period for issuance of Revised Tax Invoices. **(6 Marks)**
- (c) Determine the customs duty payable under the Customs Tariff Act, 1975 including the safeguard duty of 30% under section 8B of the said Act with the following details available on hand:

Assessable value of Sodium Nitrite imported from a developing country from 26th February, 2017 to 25th February, 2018 (both days inclusive)	Rs. 30,00,000
Share of imports of Sodium Nitrite from the developing country against total imports of Sodium Nitrite to India	4%
Basic custom duty	10%
Integrated tax under section 3(7) of the Customs Tariff Act, 1975.	12%
Social welfare surcharge	10%

Note: Ignore GST compensation cess.

**(5 Marks)**

5. (a) Mr. X, an unregistered person under GST purchases the goods supplied by Mr. Y who is a registered person without receiving a tax invoice from Mr. Y and thus helps in tax evasion by Mr. Y. What disciplinary action may be taken by tax authorities to curb such type of cases and on whom?

Suppose, in the above case, a disciplinary action is taken against Mr. X and an adhoc penalty of Rs. 20,000/- is imposed by issue of SCN without describing contravention for which penalty is going to be imposed and without mentioning the provisions under which penalty is going to be imposed. Should Mr. X proceed to pay for penalty or challenge SCN issued by department?

**(5 Marks)**

- (b) On 05.07.20XX, a show cause notice for Rs. 5,00,000 was issued to Mr. Janak Singhal demanding short payment of GST of Rs. 4,50,000 for the month of January, 20XX and also interest of Rs. 50,000.

Mr. Janak Singhal raised objections and after personal hearing on 30.08.20XX, adjudicating authority passed the final order for Rs. 3,50,000 for GST, without any reference with regard to payment of interest.

Mr. Janak Singhal deposited the tax of Rs. 3,50,000 on 02.09.20XX and informed the department on the same day. Subsequently, on 15.09.20XX, department demanded payment of interest of Rs. 60,000 on GST of Rs. 3,50,000.

Mr. Janak Singhal is not ready to pay any interest. His contention is that he is not liable for interest because he deposited all the amount specified in the final adjudication order.

Examine with a brief note the validity of the action taken by the Department with reference to provisions of the CGST Act, 2017.

**(4 Marks)**

- (c) Mr. Sujoy, an Indian entrepreneur, went to London to explore new business opportunities on 01.04.2018. His wife also joined him in London after three months. The following details are submitted by them with the Customs authorities on their return to India on 15.04.2019:

- (a) used personal effects worth Rs. 80,000,
- (b) 2 music systems each worth Rs. 50,000,
- (c) the jewellery brought by Mr. Sujoy worth Rs. 48,000 [20 grams] and the jewellery brought by his wife worth Rs. 96,000 [40 grams].

With reference to Baggage Rules, 2016, determine whether Mr. and Mrs. Sujoy will be required to pay any customs duty?

**(5 Marks)**

6. (a) Briefly discuss the modes of recovery of tax available to the proper officer. **(4 Marks)**
- (b) In what cases, assessment order passed by proper officer may be withdrawn? **(5 Marks)**
- (c) With reference to drawback on re-export of duty paid imported goods under section 74 of the Customs Act, 1962, answer in brief the following questions:
- (i) What is the time limit for re-exportation of goods as such?
  - (ii) What is the rate of duty drawback if the goods are exported without use?
  - (iii) Is duty drawback allowed on re-export of wearing apparel without use? **(5 Marks)**

**MOCKTEST PAPER 1**  
**FINAL (OLD) COURSE: GROUP – I**  
**PAPER 8: INDIRECT TAX LAWS**  
**SUGGESTED ANSWERS**

**Division A**

1. (c)
2. (d)
3. (c)
4. (c)
5. (d)
6. (a)
7. (d)
8. (d)
9. (b)
10. (a)
11. (b)
12. (b)
13. (a)
14. (a)
15. (c)
16. (b)
17. (d)
18. (b)
19. (b)
20. (a)

**Division B**

1. **Computation of GST Liability of Power Engineering Pvt. Ltd., Bangalore for the month of November 20XX**

S.No.	Particulars	Rs.
A.	Items sent in container truck to own location in Tamil Nadu - IGST @ 12% [Note 1]	36,000
	Container truck sent to own location in Tamil Nadu [Note 2]	-
B.	Stand-alone machine sent in container truck to client location in Tamil Nadu, for carrying out repairs [Note 3]	-
	Container truck sent to client location in Tamil Nadu [Note 3]	-
	Items sent in container truck to client location in Tamil Nadu, for carrying out repairs [Note 4]	-

C.	Container truck sent to client location in Karnataka [Note 3]	-
	Items sent in container truck to client location in Karnataka, for carrying out repairs [Note 4]	-
D.	Invoices raised for repair work carried out in Tamil Nadu: IGST @ 18% [Note 5 and Note 6]	12,60,000
E.	Invoices raised for repair work carried out in Karnataka: CGST 9% + SGST 9% [Note 5 and Note 7]	2,16,000
<b>Total GST liability</b>		<b>15,12,000</b>

**Notes:**

- (1) Movement of goods without any consideration to a 'distinct person' as specified in section 25(4) of the CGST Act, 2017 is deemed to be a supply in terms of Schedule I of the said Act. The purchase value is taken as taxable value, being the open market value in terms of rule 28(a) of the CGST Rules 2017. (However, if the regional office is eligible to take full input tax credit, any value may be declared in the tax invoice and that will be taken to be the open market value in terms of the second proviso to the same rule.)

In the given case-

- the location of the supplier is in Bangalore (Karnataka); and
- the place of supply of items contained in the truck is the location of such goods at the time at which the movement of goods terminates for delivery to the recipient i.e., Tamil Nadu in terms of section 10(1)(a) of the IGST Act, 2017.

Therefore, the given supply of items 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.

Since the activity is a supply, a tax invoice is to be issued by Power Engineering Pvt. Ltd. in terms of section 31(1)(a) of the CGST Act, 2017 for sending the items to its own location in Tamil Nadu.

- (2) 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.

However, in view of the GST Council's recommendation, it has been clarified that the inter-State movement of various modes of conveyance between 'distinct persons' as specified in section 25(4), not involving further supply of such conveyance, including trucks carrying goods or passengers or both; or for repairs and maintenance, may be treated 'neither as a supply of goods nor supply of service' and therefore, will not be leviable to IGST. Applicable CGST/SGST/IGST, however, shall be leviable on repairs and maintenance done for such conveyance [Circular No. 1/1/2017 IGST dated 07.07.2017].

Since the activity is not a supply, tax invoice is not required to be issued by Power Engineering Pvt. Ltd. However, a delivery challan is to be issued by the company in terms of rule 55(1)(c) of CGST Rules, 2017 for sending the truck to its own location in Tamil Nadu.

- (3) Supply of goods without consideration is deemed to be a supply *inter alia* when the goods are supplied to a 'distinct person'. However, in this case, stand-alone machine and container truck

are moved to client location and not between 'distinct persons'. Hence, the same will fall outside the scope of definition of supply and will not be leviable to GST.

Here again, a delivery challan is to be issued in terms of rule 55(1)(c) of CGST Rules, 2017 for sending the stand-alone machines and container truck to client location.

- (4) As per section 2(119) of the CGST Act, 2017, 'works contract' means a contract for, *inter alia*, repair, maintenance of any immovable property wherein transfer of property in goods (whether as goods or in some other form) is involved in the execution of such contract.

In this case, the supplier provides maintenance and repair services for power plants that are in the nature of immovable property and uses consumables and parts, wherever necessary, for the repairs. Hence, the contract is that of a works contract.

Further, as per section 2(30) of the CGST Act, 2017, a works contract is a 'composite supply' as it consists of taxable supplies of both goods and services which are naturally bundled and supplied in conjunction with each other. The composite supply of works contract is treated as supply of service in terms of para 6(a) of Schedule II to the CGST Act, 2017.

The items used in relation to the repair and maintenance work could be consumables or could be identifiable items/parts. In either case, the transfer of property in goods is incidental to a composite supply of works contract service. Thus, the value of the items actually used in the repairs will be included in the invoice raised for the service and will be charged to tax at that point of time.

Here again, a delivery challan is to be issued in terms of rule 55(1)(c) of CGST Rules, 2017 for sending the items for carrying out the repairs.

- (5) The activity is a composite supply of works contract, which is treated as supply of service. As per section 8(a) of the CGST Act, 2017, a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly.

Since the activity is a supply of service, a tax invoice is to be issued by Power Engineering Pvt. Ltd. in terms of section 31(2) of the CGST Act, 2017.

- (6) In the given case-

- the location of the supplier is in Bangalore (Karnataka); and
- the place of supply of works contract services relating to the power plant (immovable property) is the location at which the immovable property is located i.e., Tamil Nadu in terms of section 12(3)(a) of the IGST Act, 2017.

Therefore, the given supply 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 will be leviable to IGST in terms of section 5(1) of the IGST Act, 2017.

- (7) In the given case, the location of the supplier and the place of supply of works contract services are within the same State. Therefore, the given supply is an intra-State supply in terms of section 8(1) of IGST Act, 2017 and thus, chargeable to CGST and SGST.

2. (a) (1) As per Notification No. 12/2017 CT (R) dated 28.06.2017, services provided by an educational institution to its students, faculty and staff are exempt from GST. Educational Institution has been defined to mean, *inter alia*, an institution providing services by way of education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force.

Since Markanday College provides education as a part of a curriculum for obtaining an engineering degree recognised by law, the services provided by it to its staff by way of conducting personality development course would be exempt from GST.

- (2) As Starward College is an educational institution, the transport services provided by it to its students would be exempt from GST.
- (3) As per Notification No. 12/2017 CT (R) dated 28.06.2017, services provided to an educational institution, by way of, *inter alia*, house-keeping services performed in such educational institution are exempt from GST. However, such an exemption is available only when the said services are provided to a pre-school education and a higher secondary school or equivalent.

Therefore, house-keeping services provided to Smart Kids Play School would be exempt from GST.

- (4) As per Notification No. 12/2017 CT (R) dated 28.06.2017, services provided to an educational institution by way of supply of online educational journals or periodicals is exempt from GST. However, such an exemption is available only when the said services are provided to an educational institution providing education as a part of a curriculum for obtaining a qualification recognised by any law for the time being in force.

Therefore, GST is payable in case of supply of online journal to students of UKG class of Kidzee School.

- (b) As per rule 32(2)(b) of CGST Rules, the value in relation to the supply of foreign currency, including money changing, is deemed to be-
- (i) 1% of the gross amount of currency exchanged for an amount up to Rs. 1,00,000, subject to a minimum amount of Rs. 250;
- (ii) Rs. 1,000 and 0.5% of the gross amount of currency exchanged for an amount exceeding Rs. 1,00,000 and up to Rs. 10,00,000.

Therefore, the value of supply, made by Mr. X, under rule 32(2)(b) of CGST Rules is computed as under:

Particulars	Rs.	Rs.
Value of currency exchanged in Indian rupees [Rs. 64 x US \$ 10,000]	6,40,000	
Upto Rs. 1,00,000	1,000	
For Rs. 5,40,000 [0.50% x Rs. 5,40,000]	<u>2,700</u>	
<b>Value of supply</b>		<b>3,700</b>

- (c) Computation of total customs duty and integrated tax payable

Particulars		Amount
CIF value		2000 US Dollars
Less: Freight	500	
Insurance	<u>100</u>	<u>600</u> US Dollars
FOB Value		1400 US Dollars
Add: Air Freight [Note 1]	280	
Insurance (actual amount)	<u>100</u>	<u>380</u> US Dollars
		1780 US Dollars
		Rs.
Value @ Rs. 70.00 [Note 2]		1,24,600.00
Assessable Value		1,24,600.00
Basic Custom Duty @ 10% (a) [Note 3]		12,460.00
Add: Social Welfare Surcharge @ 10% on 1,24,600 (b)		<u>1,246.00</u>

Sub-total	1,38,306.00
Integrated tax under section 3(7) (12% on Rs. 1,38,306) (c) [Note 4]	<u>16,596.72</u>
<b>Total duty and integrated tax (a +b + c) (rounded off)</b>	<b>30,303</b>

**Notes:**

- (1) If the goods are imported by air, the freight cannot exceed 20% of FOB price [Fifth proviso to Rule 10(2) of the Customs (Determination of Value of Imported Goods) Rules, 2007].
  - (2) Rate of exchange notified by CBIC on the date of presentation of bill of entry would be the applicable rate. [Proviso to Section 14(1) of the Customs Act, 1962].
  - (3) Rate of duty would be the rate as prevalent on the date of filing of bill of entry or arrival of aircraft, whichever is later [proviso to section 15 of the Customs Act, 1962].
  - (4) Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 is levied on the sum total of the assessable value of the imported goods, customs duties and applicable social welfare surcharge.
3. (a) No, the store is not correct in issuing supplementary invoice with revised rate of tax. The revised rate of tax is not applicable to the transaction, as the issuance of invoice as well as receipt of payment occurred before the supply. Therefore, in terms of section 14(b)(ii), the time of supply is earlier of the two events namely, issuance of invoice or receipt of payment, both of which are before the change in rate of tax, and thus, the old rate of tax remains applicable.
- (b) Where the immovable property is located in more than one State, the supply of service is treated as made in each of the States in proportion to the value for services separately collected or determined, in terms of the contract or agreement entered into in this regard or, in the absence of such contract or agreement, on such other reasonable basis as may be prescribed in this behalf [Explanation to section 12(3) for domestic supplies].
- In the absence of a contract or agreement between the supplier and recipient of services in this regard, the proportionate value of services supplied in different States/Union territories (where the immovable property is located) is computed on the basis of the area of the immovable property lying in each State/ Union territories [Rule 4 of the IGST Rules].
- (c) The facts of the case are similar to the case of *BPL Display Devices Ltd. v. CCEx., Ghaziabad (2004) 174 ELT 5 (SC)* wherein the Supreme Court has held that the benefit of the notifications cannot be denied in respect of goods which are intended for use for manufacture of the final product but cannot be so used due to shortage or leakage.
- The Apex Court has held that no material distinction can be drawn between loss on account of leakage and loss on account of damage. The benefit of said exemption cannot be denied as inputs were intended for use in the manufacture of final product but could not be so used due to shortage/leakage/damage. It has been clarified by the Supreme Court that words "for use" have to be construed to mean "intended for use".
- Therefore, the importer can claim the benefit of the notification in respect of the entire lot of the inputs imported including those that were damaged in transit.
4. (a) Section 77, *inter alia*, stipulates that a registered person who has paid the Central tax and State tax or, as the case may be, the central tax and the Union territory tax on a transaction considered by him to be an intra-State supply, but which is subsequently held to be an inter-State supply, shall be refunded the amount of taxes so paid in such manner and subject to such conditions as may be prescribed.



The IGST liability cannot be adjusted against the CGST and SGST wrongly paid.

- (b) As per section 25 read with CGST Rules, 2017, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Sangri Services Ltd.'s turnover exceeded Rs. 20 lakh on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August.

As per section 31 read with CGST Rules, 2017, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, Sangri Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12<sup>th</sup> August) till the date of issuance of certificate of registration (6<sup>th</sup> September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6<sup>th</sup> October.

(c) **Computation of customs duty and integrated tax payable thereon**

Particular	Amount (Rs.)
Assessable value of sodium nitrite imported	30,00,000
Add: Basic custom duty @ 10% (Rs. 30,00,000 × 10%)	3,00,000
Safeguard duty @ 30% on Rs. 30,00,000 [Safeguard duty is imposable in the given case since share of imports of sodium nitrite from the developing country is more than 3% of the total imports of sodium nitrite into India (Proviso to section 8B(1) of the Customs Tariff Act, 1975)]	9,00,000
Social welfare surcharge @ 10% x Rs. 3,00,000	30,000
Total	42,30,000
Integrated tax leviable under section 3(7) of Customs Tariff Act (Rs. 42,30,000 × 12%) [Note]	5,07,600
Total customs duty payable (Rs. 3,00,000 + Rs. 9,00,000+ Rs. 30,000+ Rs. 5,07,600)	17,37,600

Note: It has been clarified by DGFT vide Guidance note that value for calculation of integrated tax shall also include safeguard duty amount.

5. (a) Both Mr. X and Mr. Y will be offender and will be liable to penalty as under:

Mr. X – Penalty under section 122(3) which may extend to Rs. 25,000/-;

Mr. Y – Penalty under section 122(1), which will be higher of following, namely (i) Rs. 10,000/- or (ii) 100% of tax evaded.

The levy of penalty is subject to a certain disciplinary regime which is based on jurisprudence, principles of natural justice and principles governing international trade and agreements. Such general discipline is enshrined in section 126 of the Act. Accordingly—

- (i) no penalty is to be imposed without issuance of a show cause notice and proper hearing in the matter, affording an opportunity to the person proceeded against to rebut the allegations levelled against him,
- (ii) the penalty is to depend on the totality of the facts and circumstances of the case, the penalty imposed is to be commensurate with the degree and severity of breach of the provisions of the law or the rules alleged,
- (iii) the nature of the breach is to be specified clearly in the order imposing the penalty,
- (iv) the provisions of the law under which the penalty has been imposed is to be specified.

Since SCN issued to Mr. X suffers from lack of clarity about nature of breach which has taken place and about provision of law under which penalty has been imposed, SCN issued by department may be challenged.

- (b) As per section 75 of the CGST Act, 2017, the interest on the tax short paid has to be paid whether or not the same is specified in the order determining the tax liability.

Thus, in view of the same, Mr. Janak Singhal will have to pay the interest even though the same is not specified in the final adjudication order. His contention that he is not liable for interest because he deposited all the amount specified in the final adjudication order is not valid in law.

However, the amount of interest demanded in the order cannot be in excess of the amount specified in the notice.

Therefore, in the given case, Department cannot demand the interest in excess of the amount specified in the notice, which will be Rs. 50,000.

- (c) As per rule 3 of the Baggage Rules, 2016, an Indian resident arriving from any country other than Nepal, Bhutan or Myanmar, shall be allowed clearance free of duty articles in his bona fide baggage, that is to say, used personal effects and travel souvenirs; and articles [other than certain specified articles], upto the value of Rs. 50,000 if these are carried on the person or in the accompanied baggage of the passenger.

Thus, there is no customs duty on used personal effects and travel souvenirs and general duty free baggage allowance is Rs. 50,000 per passenger. Thus, duty liability of Mr. Sujoy and his wife is nil for the used personal effects worth Rs. 80,000 and 2 music systems each worth Rs. 50,000.

As per rule 5 of the Baggage Rules, 2016, the jewellery allowance is as follows:

Jewellery brought by	Duty free allowance
Gentleman Passenger	Jewellery upto a weight of 20 grams with a value cap of Rs. 50,000
Lady Passenger	Jewellery upto a weight of 40 grams with a value cap of Rs. 1,00,000

However, the jewellery allowance is applicable only to a passenger residing abroad for more than 1 year.

Consequently, there is no duty liability on the jewellery brought by Mr. Sujoy as he had stayed abroad for period exceeding 1 year and weight of the jewellery brought by him is 20 grams with a value less than Rs. 50,000.

However, his wife is not eligible for this additional jewellery allowance as she had stayed abroad for a period of less than a year. Thus, she has to pay customs duty on the entire amount of

jewellery brought by her as she has already exhausted the general duty free baggage allowance of Rs. 50,000 allowed under rule 3.

6. (a) The proper officer may recover the dues in following manner:
- (a) Deduction of dues from the amount owned by the tax authorities payable to such person.
  - (b) Recovery by way of detaining and selling any goods belonging to such person;
  - (c) Recovery from other person, from whom money is due or may become due to such person or who holds or may subsequently hold money for or on account of such person, to pay to the credit of the Central or a State Government;
  - (d) Distrain any movable or immovable property belonging to such person, until the amount payable is paid. If the dues not paid within 30 days, the said property is to be sold and with the proceeds of such sale the amount payable and cost of sale shall be recovered.
  - (e) Through the Collector of the district in which such person owns any property or resides or carries on his business, as if it was an arrear of land revenue.
  - (f) By way of an application to the appropriate Magistrate who in turn shall proceed to recover the amount as if it were a fine imposed by him.
  - (g) By enforcing the bond/instrument executed under this Act or any rules or regulations made thereunder.
  - (h) CGST arrears can be recovered as an arrear of SGST and vice versa [Section 79].
- (b) Assessment Order passed by proper officer may be withdrawn in the following cases:-
- (i) **Assessment of Non-filers of return** – The best judgment order passed by the Proper Officer under section 62 of CGST Act shall automatically stand withdrawn if the taxable person furnishes a valid return for the default period (i.e. files the return and pays the tax as assessed by him), within thirty days of the receipt of the best judgment assessment order
  - (ii) **Summary Assessment** – A taxable person against whom a summary assessment order has been passed can apply for its withdrawal to the jurisdictional Additional/Joint Commissioner within thirty days of the date of receipt of the order. If the said officer finds the order erroneous, he can withdraw it and direct the proper officer to carry out determination of tax liability in terms of section 73 or 74 of CGST Act. The Additional/Joint Commissioner can follow a similar course of action on his own motion if he finds the summary assessment order to be erroneous.
- (c) (i) As per section 74 of the Customs Act, 1962, the duty paid imported goods are required to be entered for export within two years from the date of payment of duty on the importation. This period can be extended by CBIC if the importer shows sufficient reason for not exporting the goods within two years.
- (ii) If duty paid imported goods are exported without use, then 98% of such duty is re-paid as drawback.
- (iii) Yes, duty drawback is allowed when wearing apparels are re-exported without being used. However, *Notification No. 19/65 Cus dated 06.02.1965* as amended provides that if wearing apparels have been used after their importation into India, drawback of import duty paid thereon shall not be allowed when they are exported out of India.