PAPER – 5: ADVANCED MANAGEMENT ACCOUNTING

QUESTIONS

Activity Based Costing

1. Bank of NZ operated for years under the assumption that profitability can be increased by increasing Rupee volumes. But that has not been the case. Cost analysis has revealed the following:

Activity	Activity Cost (₹)	Activity Driver	Activity Capacity
Providing ATM Service	1,00,000	No. of Transactions	2,00,000
Computer Processing	10,00,000	No. of Transactions	25,00,000
Issuing Statements	8,00,000	No. of Statements	5,00,000
Customer Inquiries	3,60,000	Telephone Minutes	6,00,000

The following annual information on three products was also made available:

Activity Driver	Checking Accounts	Personal Loans	Gold Visa
Units of Product	30,000	5,000	10,000
ATM Transactions	1,80,000	0	20,000
Computer Transactions	20,00,000	2,00,000	3,00,000
Number of Statements	3,00,000	50,000	1,50,000
Telephone Minutes	3,50,000	90,000	1,60,000

Required

(i) Calculate rates for each activity.

(ii) Using the rates computed in requirement (i), calculate the cost of each product.

Value Added/ Non -Value Added Activities

2. Queensland Furniture (QF) manufactures high-quality wooden doors within the forests of Queensland since 1919. Management is having emphasize on creativity, engineering, innovation and experience to provide customers with the door they desire, whether it is a standard design or a one-of-a-kind custom door. The following information pertains to operations during Jan:

Processing time	9.0 hrs.*	Waiting time	6.0 hrs.*
Inspection time	1.5 hr.*	Move time	7.5 hrs.*
Units per batch	60 units		

(*) average time per batch

Required

Compute the following operational measures:

(i) Average non-value-added time per batch

(ii) Average value added time per batch

(iii) Manufacturing cycle efficiency

(iv) Manufacturing cycle time

Shut Down or Continue

3. If AICI Limited operates its plant at normal capacity it produces 2,00,000 units from the plant 'C'. The unit cost of manufacturing at normal capacity is as under:

	₹
Direct material	65
Direct labour	30
Variable overhead	33
Fixed overhead	7
	135

Direct labour cost represents the compensation to highly-skilled workers, who are permanent employees of the company. The company cannot afford to lose them. One labour hour is required to complete one unit of the product.

The company sells its product for ₹ 200 per unit with variable selling expenses of ₹ 16 per unit. The company estimates that due to economic down turn, it will not be able to operate the plant at the normal capacity, at least during the next year. It is evaluating the feasibility of shutting down the plant temporarily for one year.

If it shuts down the plant, the fixed manufacturing overhead will be reduced to ₹ 1,25,000. The overhead costs are incurred at a uniform rate throughout the year. It is also estimated that the additional cost of shutting down will be ₹ 50,000 and the cost of re-opening will be ₹ 1,00,000.

Requiredf

Calculate the minimum level of production at which it will be economically beneficial to continue to operate the plant next year if 50% of the labour hours can be utilized in another activity, which is expected to contribute at the rate of ₹ 40 per labour hour. The additional activity will relate to a job which will be off-loaded by a sister company only if the company decides to shut down the plant.

(Assume that the cost structure will remain unchanged next year. Ignore income tax and time value of money)

Labour Related Decision

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

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

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

DBC Ltd. has been facing industrial relations problem as the workers of company have a very strong union. Company is faced with the possibility of a strike by direct production workers engaged on the assembly of 'DBC'. The trade union is demanding an increase of 15%, back-dated from the beginning of financial year, but the company expects that if a strike does take place, it will last 25 Days after which the union will settle for an increase of 10% similarly back-dated. The only product of the company is being sold at ₹ 6,000.

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

Required

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

Sales or Further Processing Decision

5. If A process industry unit manufactures three joint products: L, B and G. G has no realisable value unless it undergoes further processing after the point of separation. The cost details of G are as follows:

	p.u. ₹
Upto point of separation	
Marginal cost……………………………..	30

Fixed Cost…………………………………	20
After point of separation	
Marginal cost……………….……………	15
Fixed cost…………………………..………	5
	70

G can be sold at ₹ 37 per unit and no more.

Required

(i) Would you recommend production of G?

(ii) Would your recommendation be different if L, B and G are not joint products?

CVP Analysis

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

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

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

Required

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

Cost Plus/ Mark-up Pricing

7. JTC Ltd. is specialists in the manufacture of sports goods. They manufacture croquet mallets but purchase the wooden balls, iron arches and stakes required to complete a croquet set.

Mallets consist of a head and handle. Handles use 2.5 board feet per handle at ₹ 50 per board foot. Spoilage loss is negligible for the manufacture of handles. Heads frequently split and create considerable scrap.

A head requires 0.40 board feet of high quality lumber costing ₹ 60 per board foot. Spoilage normally works out to 20% of the completed heads. 4% of the spoiled heads can be salvaged and sold as scrap at ₹ 10 per spoiled head.

In the department machining and assembling the mallets, 6 men work 8 hours per day for 25 days in a month. Each worker can machine and assemble 12 mallets per uninterrupted 40 minutes time frame. In each 8 hours working day, 15 minutes are allowed for coffee-break, 8 minutes on an average for training and 9 minutes for supervisory instructions. Besides 10% of each day is booked as idle time to cover checking in and checking out changing operations, getting materials and other miscellaneous matters. Workers are paid at a comprehensive rate of ₹ 6 per hour.

The department is geared to produce 20,000 mallets per month and the monthly expenses of the department are as under:

	(₹)
Finishing and painting of the mallets…………………………	20,000
Lubricating oil for cutting machines……………………………	600
Depreciation for cutting machine………………………………	1,400
Repairs and maintenance………………………………………	200
Power to run the machines………………………………………	400
Plant Manager's salary………………………………………..	9,400
Other overheads allocated to the department…………......	60,000

Required

As the mallets are machined and assembled in lots of 250, prepare a total cost sheet for one lot and advise the management on the selling price to be fixed per mallet in order to ensure a minimum 33.33% margin on the selling price.

Return on Investment Pricing

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

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

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

Required

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

Profit Maximisation Model

9. APV Ltd. has developed a new product which is about to be launched into the market. The variable cost of selling the product is ₹ 17 per unit. The marketing department has

estimated that at a sale price of ₹ 25, annual demand would be 10,000 units. However, if the sale price is set above ₹ 25, sales demand would fall by 500 units for each ₹ 0.50 increase above ₹ 25. Similarly, if the price is below ₹ 25, demand would increase by 500 units for each ₹ 0.50 stepped reduction in price below ₹ 25.

Required

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

Break Even Point (Batches)

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

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

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

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

	₹	₹
Machine hour related…………………………………………		6,20,000
Batch related …………………………………………		4,60,000

Product specific fixed overhead:

B……………………………………………	10,00,000	
O……………………………………………	1,00,000	
S……………………………………………	2,00,000	
H……………………………………………	1,00,000	14,00,000
General fixed overheads……………………		6,20,000
		31,00,000

The other information is as follows:

	B	O	S	H	Total
Machine Hours	4,00,000	3,90,000	1,60,000	6,00,000	15,50,000
Labour Hours	1,00,000	2,60,000	1,60,000	1,50,000	6,70,000

Required

(i) Prepare a profitability statement that is more useful for decision making than the profit statement prepared by BOSH India Ltd.

(ii) Calculate the break-even volume in batches and also in approximate units for Product ‘B’.

Pricing Strategy

11. State the appropriate pricing policy in each of the following independent situations:

(i) 'W' is a new product for the company and the market and meant for large scale production and long term survival in the market. Demand is expected to be elastic.

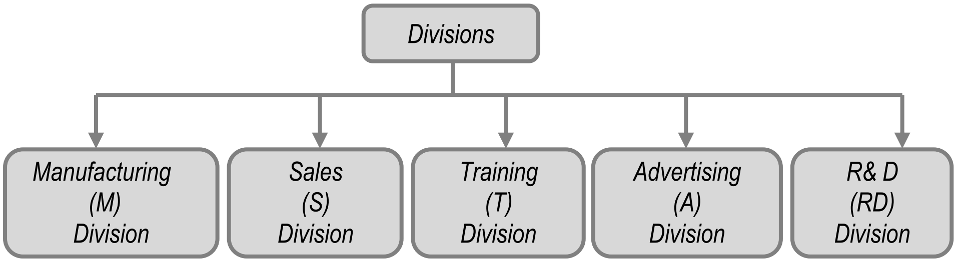
(ii) 'X' is a new product for the company, but not for the market. X's success is crucial for the company's survival in the long term.

(iii) 'Y' is a new product to the company and the market. It has an inelastic market. There needs to be an assured profit to cover high initial costs and the usual sources of capital have uncertainties blocking them.

(iv) 'Z' is a perishable item, with more than 80% of its shelf life over.

Budget – Zero Based Budgeting

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



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

Required

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

Budget – Missing Figure

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

	November	December
Beginning WIP Inventory	36,000	???
Beginning Finished Goods Inventory	44,000	???
Variable Cost of Goods Sold	1,23,000	???
Direct Material Usage	50,000	56,000
Direct Labour	53,100	69,000
Variable Overhead	25,000	29,000
Variable Cost of Goods Manufactured	1,09,000	1,14,800
Ending WIP Inventory	???	???
Ending Finished Goods Inventory	???	45,000

Required

Find out missing figures.

Standard Costing – Profit Reconciliation

14. ANZ Ltd. has provided the following summarized results for two years:

	Year ended (₹ In lacs)	
	31-03-2016	31-3-2017
Sales	3,000	3,277.50
Material	2,000	2,357.50
Variable overheads	500	525.00

Fixed overheads	300	367.50
Profit	200	27.50

During the year ended 31-3-2017 sale price has increased by 15% whereas material and overhead prices have increased by 15% and 5% respectively.

Required

(i) Analyse the variances of revenue and each element of cost over the year in order to bring out the reasons for the change in profit.

(ii) Present a profit reconciliation statement starting from profits in 2015-16 showing the factors responsible for the change in profits in 2016-17.

Note – Consider 'Contribution Variances' for solving this question.

Standard Costing

15. Natural Spices manufactures and distributes high-quality spices to gourmet food shops and top quality restaurants. Gourmet and high-end restaurants pride themselves on using the freshest, highest-quality ingredients.

Natural Spices has set up five state of the art plants for meeting the ever growing demand. The firm procures raw material directly from the centers of produce to maintain uniform taste and quality. The raw material is first cleaned, dried and tested with the help of special machines. It is then carefully grounded into the finished product passing through various stages and packaged at the firm's ultraclean factory before being dispatched to customers.

The following variances pertain to last week of operations, arose as a consequence of management's decision to lower prices to increase volume.

Sales Volume Variance	18,000 (F)
Sales Price Variance	14,000 (A)
Purchase Price Variance	10,000 (F)
Labour Efficiency Variance	11,200 (F)
Fixed Cost Expenditure Variance	4,400 (F)

Required

(i) Identify the 'Critical Success Factors' for Natural Spices.

(ii) Evaluate the management's decision with the 'Overall Corporate Strategy' and 'Critical Success Factors'.

16. Great Southern Company Ltd. has two Divisions namely Casnub Bogie Division (CBD) and Wagon Division (WD). CBD manufactures Casnub Bogies and WD manufactures BOBN type of Wagons. To manufacture a Wagon WD needs four Casnub Bogies. CBD is

the only manufacturer of the Casnub Bogies and supplies both WD and outside customers. Details of CBD and WD for the coming financial year 2017-18 are as follows:

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

* excluding transfer costs

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

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

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

Required

(i) Calculate the unit quotation price of the Wagon that will maximise Great Southern Company Ltd.'s profit for the financial year 2017-18.

(ii) Calculate the unit quotation price of the Wagon that is likely to emerge if the divisional managers of CBD and WD both set quotation prices calculated to maximise divisional profit from sales to outside customers and the transfer price is set at market selling (quotation) price.

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

Balanced Scorecard

17. Classify the following measures under appropriate categories in a Balanced Scorecard for a banking company which excels in its home loan products:

(i) A new product related to life insurance is being considered for a tie up with the successful housing loan disbursements.

e.g. every housing loan applicant to be advised to take a life policy or compelled to take a fire insurance policy.

(ii) How different sectors of housing loans with different interest rates have been sanctioned, their volumes of growth in the past 4 quarters.

(iii) How many days are taken to service a loan, how many loans have taken longer, what additional loans are to be released soon, etc.

Linear Programming – Formulation

18. The owner of Fancy Goods Shop is interested to determine, how many advertisements to release in the selected three magazines M, N and O. His main purpose is to advertise in such a way that total exposure to principal buyers of his gods is maximized. Percentages of readers for each magazine are known. Exposure in any particular magazine is the number of advertisements released multiplied by the number of principal buyers. The following data are available:

Particulars	Magazines		
	M	N	O
Readers	1.0 Lakhs	0.6 Lakhs	0.4 Lakhs
Principal buyers	20%	15%	8%
Cost per advertisement	₹ 8,000	₹ 6,000	₹ 5,000

The budgeted amount is at the most ₹1.0 lakh for the advertisements. The owner has already decided that magazine M should have no more than 15 advertisements and that N and O each gets at least 8 advertisements.

Required

Formulate a Linear Programming model for this problem.

Assignment Problem – Minimisation

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

(₹)

	P	Q	R	S	T
X_1	18	22	30	20	22
X_2	24	18	--	20	18
X_3	--	22	28	22	14
X_4	28	16	24	14	16

Required

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

Missing Figures & Network

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

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

Required

(i) Find the??? Figures.

(ii) Draw the network.

(iii) List the paths with their corresponding durations and state when the project can be completed.

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

Raw Material		Wages & Other Variable Overheads		Sales	
₹ in '000	Probability	₹ in 000	Probability	₹ in 000	Probability
08 – 10	0.2	11 – 13	0.3	34 – 38	0.1
10 – 12	0.3	13 – 15	0.5	38 – 42	0.3
12 – 14	0.3	15 – 17	0.2	42 – 46	0.4
14 – 16	0.2			46 – 50	0.2

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

Required

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

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

Learning Curve

22. T Aviation Ltd, supplier of automation systems and equipment, has just invented a new part 'T'. New part has a budgeted total profit of ₹ 75,000 from the first 256 parts. The time taken to produce the first part was 112.50 hours. The labour rate is ₹ 20 per hour. A 90% learning curve is expected to apply indefinitely.

    Required

    Calculate the sensitivity of the budgeted total profit from the first 256 parts to changes in the learning rate.

Miscellaneous

23. Indicate 6 activity drivers in respect of each of the following activity cost pools:
    (i) Human Resources Cost
    (ii) Accounting Costs
24. Which of the following statements are VALID in respect of flexible budgeting.
    (i) A flexible budget is one which changes from year to year.
    (ii) It is a budget which departmental heads can change at will.
    (iii) It is a system of budgeting which will recast the budgets because of a change in fixed expenses.
    (iv) It is a system of budgeting under which budgets are recast quickly for changes in the volume of activity.
    (v) It involves careful differentiation between fixed and variable expenses.
25. State whether the following statements are VALID or INVALID.
    (i) When price reductions are introduced to increase sales revenue, the revenue line will be a straight line.
    (ii) In fixing selling prices, volume consideration should be taken into account so that fuller utilisation of plant capacity is achieved.
    (iii) There is no price policy in perfect competition.
    (iv) The rate of return to be earned by factory should cover the risk involved in business.
    (v) Survival and progress of a firm depend on its ability to maintain and replace, whenever necessary, its fixed assets.

SUGGESTED ANSWERS/HINTS

1. Statement Showing "Activity Rate"

Activity	Activity Cost [a] (₹)	Activity Driver	No. of Units of Activity Driver [b]	Activity Rate [a] / [b] (₹)
Providing ATM Service	1,00,000	No. of ATM Transactions	2,00,000	0.50
Computer Processing	10,00,000	No. of Computer Transactions	25,00,000	0.40
Issuing Statements	8,00,000	No. of Statements	5,00,000	1.60
Customer Inquiries	3,60,000	Telephone Minutes	6,00,000	0.60

Statement Showing "Cost of Product"

Activity	Checking Accounts (₹)	Personal Loans (₹)	Gold Visa (₹)
Providing ATM Service	90,000 (1,80,000 tr.×₹ 0.50)	---	10,000 (20,000 tr. × ₹ 0.50)
Computer Processing	8,00,000 (20,00,000 tr. × ₹ 0.40)	80,000 (2,00,000 tr. × ₹ 0.40)	1,20,000 (3,00,000 tr. × ₹ 0.40)
Issuing Statements	4,80,000 (3,00,000 st. × ₹ 1.60)	80,000 (50,000 st. × ₹ 1.60)	2,40,000 (1,50,000 st. × ₹ 1.60)
Customer Inquiries	2,10,000 (3,50,000 min. × ₹ 0.60)	54,000 (90,000 min. × ₹ 0.60)	96,000 (1,60,000 min. × ₹ 0.60)
Total Cost [a]	₹ 15,80,000	₹ 2,14,000	₹ 4,66,000
Units of Product [b]	30,000	5,000	10,000
Cost of each Product [a] / [b]	52.67	42.80	46.60

2. **(i)** Average Non Value Added Time *per batch*

= Inspection Time + Waiting Time + Move Time

= 1.5 hr. + 6.0 hrs. + 7.5 hrs.

= 15 hrs.

(ii) Average Value Added Time per batch

= Processing Time

= 9 hrs.

(iii) Manufacturing Cycle Efficiency

$$= \frac{\text{Processing Time}}{\text{Processing Time} + \text{Inspection Time} + \text{Waiting Time} + \text{Move Time}}$$

$$= \frac{9.0 \text{ hrs.}}{9.0 \text{ hrs.} + 1.5 \text{ hr.} + 6.0 \text{ hrs.} + 7.5 \text{ hrs.}}$$

$$= 37.5\%$$

(iv) Manufacturing Cycle Time

$$= \frac{\text{Total Production Time}}{\text{Units per Batch}}$$

$$= \frac{24 \text{ hrs.}}{60 \text{ units}}$$

= 0.40 hrs. *per unit*

3. Contribution *per unit*

Particulars	(₹)
Selling Price	200
Variable Cost (₹ 65 + ₹ 33 + ₹ 16)	114
Contribution per unit (Excluding direct labour, considered irrelevant and fixed)	86

Savings and Earnings if the Plant is Shut Down

Particulars	(₹)
Savings in Fixed Cost (₹ 14,00,000* – ₹ 1,25,000)	12,75,000
Contribution from Alternate Activity (₹ 40 × 50% of 2,00,000 hrs)	40,00,000
Shutting Down and Reopening Cost (₹ 50,000 + ₹100,000)	(1,50,000)
Total	51,25,000

* [2,00,000 units x ₹ 7]

Indifference Point: ₹ 51,25,000 / ₹ 86 = 59,593 units

Minimum level of production to justify continuation = 59,594 units

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

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

Annual Cost of Settlement

= 54,000 units × ₹ 216

= ₹ 1,16,64,000

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

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

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

Working Note

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

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

(2) Calculation of Labour Cost

Direct Labour (40% of production costs of ₹3,600) = ₹1,440 *per unit*

With 15% Increase, Revised Labour Cost (₹1,440 + ₹216) = ₹1,656

With 10% Increase, Revised Labour Cost (₹1,440 + ₹144) = ₹1,584

(3) Statement Showing Budgeted Production

Total Time in a Day: (8hrs. × 60 minutes) = 480 minutes

Less: Idle Time = 48 minutes

Coffee Break = 20 minutes

Instructions = 22 minutes

Training	=	30 minutes
Productive Time *per day*	=	360 minutes
Therefore, 'DBC' to be produced per man per day: (360/180 × 1)	=	2 units

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

☞

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

5. **(i)** Cost incurred on Product 'G' *upto point of separation* is irrelevant for decision making as Product 'G' is a Joint Product. Joint Products are the result of same raw material & same process Operations.

Cost incurred *after point of separation* will be considered for decision making as *specifically* incurred for Product 'G'.

After further processing Product 'G' will *contribute* ₹17 per unit toward 'Joint Production Cost'.

Calculation is as follows

Particulars	**Amount (₹)**
Selling Price *per unit*	37.00
Less: Cost after separation:	
Marginal Cost *per unit*	15.00
Fixed Cost *per unit*	5.00
Contribution toward 'Joint Production Cost'	

Hence, *further processing* of Product 'G' is recommended.

(ii) If Product 'G' is not a joint product with same cost structure. In this case there will be *negative contribution* on production of Product 'G'. The calculation is as follows→

Particulars	**Amount (₹)**
Selling Price *per unit*	37.00
Less: Marginal Cost (₹ 30 + ₹ 15)	45.00
Contribution	(8.00)

Hence, production of Product 'G' will not be recommended.

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

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

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

(#) Fixed Cost = Existing Sales – Existing Marginal Cost – 12.5% on ₹ 4,00,000

= ₹ 5,00,000 – ₹ 3,90,000 – ₹ 50,000

= ₹ 60,000

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

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

7. **JTC Ltd.**

Cost Sheet of One Lot of 250 Croquet Mallets

Computation of Total Cost:	**(₹)**
Direct Material	
Handles (2.5 feet × 250 units × ₹ 50)	31,250
Heads (1.20 × 250 × 0.40 × ₹ 60) [W.N.-1]	7,200
Less: Scrap Recovery (4% × 50 × ₹ 10)	(20)
Direct Labour (8 Hrs × ₹ 6 × 250 / 120) [W.N.-2]	100
Prime Cost	38,530
Factory & Other Overheads	
Variable, Finishing & Painting (20,000 × 250 / 20,000) [W.N.-3]	250
Fixed (₹ 72,000 × 250 / 18,000) [W.N.-4]	1,000
Total Cost	39,780

Price Quotation:	(₹)
Cost *per mallet* (₹39,780 / 250 Units)	159.12
Add: Profit (50% on Cost)	79.56
Selling Price	238.68

Working Notes

1. Since 20% of completed heads are spoiled, output of 1 unit requires input of 1.20 units (1 + 0.20); so, total heads processed, 300 (1.20 × 250), of which spoiled heads are 50.

2.

Total Time *in a day*		(8 × 60)	480 minutes
Less: Idle Time		48 minutes	
	Coffee Break	15 minutes	
	Instructions	9 minutes	
Training		8 minutes	80 minutes
Productive Time *per day*:			400 minutes

Therefore, mallets to be produced per man per day, 120 units (400/40 × 12).

Since mallets are produced at the rate of 120 mallets per man day, so total monthly production will be18,000 mallets (120 units × 6 men × 25 days).

3. Finishing and painting overheads are assumed to be variable for the production of 20,000 mallets.

4. All the other expenses are fixed and are to be absorbed by 18,000 (120 units × 6 men × 25 Days) mallets of monthly production.

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

Let Selling Price per unit to be 'K'

Since Total Sales = Total Cost + Profit

80,000 K = 14,60,000 + 20% (12,00,000 + 0.5 × 80,000K)

Or, 80,000 K = 14,60,000 + 2,40,000 + 8,000K

Or, 72,000 K = 17,00,000

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

= ₹ 23.61

Hence Selling Price per unit will be ₹ 23.61.

9. Statement of Total Contribution

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

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

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

10. (i) Statement Showing "Profitability of BOSH India Ltd"

	Products (Amount in ₹)				
	B	O	S	H	Total
Sales	26,00,000	45,20,000	42,40,000	32,00,000	1,45,60,000
Direct Materials	6,00,000	18,20,000	18,80,000	10,00,000	53,00,000
Direct Wages	8,00,000	20,80,000	12,80,000	12,00,000	53,60,000
Overheads (W.N.2):					
Machine Related	1,60,000	1,56,000	64,000	2,40,000	6,20,000
Batch Related	1,00,000	1,30,000	80,000	1,50,000	4,60,000
Contribution	9,40,000	3,34,000	9,36,000	6,10,000	28,20,000
Product Specific Fixed Overheads	10,00,000	1,00,000	2,00,000	1,00,000	14,00,000
Gross Profit	(60,000)	2,34,000	7,36,000	5,10,000	14,20,000
General Fixed Overheads					6,20,000
Profit					8,00,000

(ii) Break-even Point

Total Sale Value of Product 'B' = ₹ 26,00,000

Total Contribution of Product 'B' = ₹ 9,40,000

Specific Fixed Overheads (Product 'B') = ₹ 10,00,000

Break-even Sales (₹) = $\frac{\text{Specific Fixed Cost}}{\text{Total Contribution}} \text{x Total Sales Value}$

= $\frac{₹\ 10,00,000}{₹\ 9,40,000} \text{x} ₹26,00,000$

= ₹ 27,65,957.45

Break-even Sales (units) = $\frac{₹\ 27,65,957.45}{₹\ 13.00}$

= 2,12,766 units

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

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

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

Workings

W.N. 1

Calculation Showing Overhead Rates

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

W.N.-2

Statement Showing - Overhead Costs Related to Product

Particulars	B	O	S	H
Machining hrs. related overheads	₹ 1,60,000 (4,00,000 hrs × ₹0.40)	₹ 1,56,000 (3,90,000 hrs × ₹0.40)	₹ 64,000 (1,60,000 hrs × ₹0.40)	₹ 2,40,000 (6,00,000 hrs × ₹0.40)
Batch related overheads	₹1,00,000 (2,000 batches × ₹ 50)	₹1,30,000 (2,600 batches × ₹50)	₹80,000 (1,600 batches × ₹50)	₹1,50,000 (3,000 batches × ₹50)

11.

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

(*) this amount decreases every passing day.

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

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

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

13. Analysis of WIP Account

	November	**December**
Opening WIP	36,000	**55,100**
Add: Direct Materials Usage	50,000	56,000
Add: Direct Labor	53,100	69,000
Add: Variable Overhead	25,000	29,000
Total Inflow into WIP	1,64,100	2,09,100
Less: Variable Cost of Goods Manufactured	1,09,000	1,14,800
Ending WIP	**55,100**	**94,300**

Analysis of Finished Goods Inventory Account

	November	**December**
Opening Finished Goods	44,000	**30,000**
Add: Cost of Goods Manufactured	1,09,000	1,14,800
Cost of Goods Available for Sale	1,53,000	1,44,800
Less: Cost of Goods Sold	1,23,000	**99,800**
Ending Finished Goods Inventory	**30,000**	45,000

14. Statement Showing Reconciliation Between Budgeted [F.Y. 2015-16] & Actual Profit [F.Y. 2016-17]

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

Fixed Overheads Variances:		
Expenditure	67.50 (A)	
Volume	N.A.	67.50 (A)
Actual Profit		27.50

Computation of Variances (₹ In Lacs)

Sales Variances (W.N.1)

Price Variance = Actual Sales – Standard Sales

= ₹ 3,277.50 – ₹ 2,850.00

= ₹ 427.50 (F)

Volume Variance = Standard Sales – Budgeted Sales

= ₹ 2,850.00 – ₹ 3,000.00

= ₹ 150 (A)

Sales Contribution Variances

Sales Contribution Price Variance = Sales Price Variance

= ₹ 427.50 (F)

Sales Contribution Volume Variance = Sales Volume Variance × Budgeted PV Ratio

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

= ₹ 25 (A)

Material Variances (W.N.2)

Material Price Variance

= Standard Cost of Actual Quantity – Actual Cost

= ₹ 2,050.00 – ₹ 2,357.50

= ₹ 307.50 (A)

Material Usage Variance

= Standard Cost of Standard Quantity for Actual Output – Standard Cost of Actual Quantity

= ₹ 1,900 – ₹ 2,050

= ₹ 150 (A)

Variable Overhead Variances (W.N.3)

Expenditure Variance

= Budgeted Variable Overheads for Actual Hours – Actual Variable Overheads

Or

= Std. Rate *per unit* × Expected Output for Actual Hours Worked – Actual Variable Overheads

= ₹ 500 – ₹ 525

= ₹ 25 (A)

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

Or

= Std. Rate *per unit* × Actual Output – Std. Rate *per unit* × Expected Output for Actual Hours Worked

= ₹ 475 – ₹ 500

= ₹ 25 (A)

Fixed Overhead Variances (W.N.4)

Expenditure Variance

= Budgeted Fixed Overheads – Actual Fixed Overheads.

= ₹ 300.00 – ₹ 367.50

= ₹ 67.50 (A)

Working Notes (₹ in lacs)

Note-1:

Sales in F.Y. 2016-2017	3,277.50
Less: Increase due to *price rise* [₹ 3,277.50 lacs x 15/115]	427.50
Sales in F.Y. 2016-2017 at F.Y. 2015-2016 Prices **[Standard Sales]**	2,850.00
Sales in F.Y. 2015-2016	3,000.00
Fall in Sales in F.Y. 2016-2017 [₹ 3,000 lacs - ₹ 2,850 lacs]	150.00
Percentage fall	5%

Note-2:

Material Cost in F.Y. 2015-2016	2,000.00
Less: 5% for Decrease in Volume	100.00
'Standard Material Usage' at F.Y. 2015-16 Prices **(Standard Cost of Standard Quantity for Actual output)**	1,900.00
Actual Material Cost F.Y. 2016-2017	2,357.50
Less: 15% Increase in Prices [₹ 2,357.50 lakhs x 15/115]	307.50
Actual Materials Used, at F.Y. 2015-2016 Prices **(Standard Cost of Actual Quantity)**	2,050.00

Note-3:

Variable Overheads Cost in F.Y. 2015-16	500.00
Less: 5% due to fall in Volume of Sales in F.Y. 2016-17	25.00
"Standard Overheads for Production" in F.Y. 2016-17	475.00
Actual Variable Overheads Incurred in F.Y. 2016-17	525.00
Less: 5% for Increase in Price [₹ 525 lacs x 5 / 105]	25.00
Amount Spent in F.Y. 2016 -17 at F.Y. 2015-16 Prices **(Budgeted Variable Overheads for Actual Hours)**	500.00

15. (i) Gourmet and high-end restaurants recognises Natural Spices on the basis of its *high quality* of spices. Therefore, quality is most critical success factor of Natural Spices. There are other factors which cannot be ignore such as price, delivery options, attractive packing etc. But all are secondary to the quality.

(ii) Deliberate action of cutting price to increase sales volume indicates that firm is intending to expand its market to retail market and street shops which is price sensitive.

Purchase Price Variance is clearly indicating that firm has purchased raw material at lower price which may be due to buying of lower quality of material. Similarly positive *Efficiency Variance* is indicating cost cutting and stretching resources.

It appears that firm is intending to expand its market to retail market and street shops by not only reducing the price but also compromising its quality which is opposing its current strategy of *high quality*.

Management should monitor the trends of variances on regular basis and take appropriate action in case of evidence of permanent decline in quality. Here, customer feedback is also very important.

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

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

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

Demand Function for a 'Wagon'

P	=	₹ 17,10,000 – (₹50,000 / 2) × Q
Revenue (R)	=	Q × [17,10,000 – 25,000 × Q]
	=	17,10,000 Q – 25,000 Q^2
Marginal Revenue (MR)	=	17,10,000 – 50,000 Q
Marginal Cost (MC)	=	13,60,000

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

17,10,000 – 50,000 Q	=	13,60,000
Q	=	7.00 units

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

P	=	17,10,000 – (50,000/ 2) × Q
	=	17,10,000 – 25,000 × 7.00
	=	₹ 15,35,000

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

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

MR of a Casnub Bogies	=	MC of Manufacturing a Casnub Bogies
3,20,000 – 2(10,000/ 30) × Q	=	2,20,000
Q	=	150 units

Selling Price of a Casnub Bogie 'P' is

P	=	3,20,000 – (10,000/ 30) × 150
	=	₹ 2,70,000

CBD will earn Maximum Profit when it will Quote ₹ 2,70,000 to the Outside Market.

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

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

MR of a Wagon	=	MC of Manufacturing a Wagon

17,10,000 – 50,000 × Q	=	(₹ 2,70,000 × 4 Casnub Bogies) + ₹ 4,80,000
Q	=	3.00 units

Quotation Price of a Wagon 'P' should be:

P	=	₹ 17,10,000 – 25,000 × 3.00
	=	₹ 16,35,000

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

17. (i) New Product *tie up* --- Innovation / Learning Perspective

(ii) Growth of Volume --- Financial Perspective

(iii) Time for Loan / Fresh Products --- Customer Perspective

18. Let x_1, x_2 and x_3 denote the number of advertisements to be released in three magazines M, N and O respectively. Let Z denote the total exposure to the principal buyers of the goods.

Objective function:

Since the exposure in any magazine is the number of advertisements multiplied by the number of principal buyers, therefore, the value of Z is given by:

$$Z = (0.20 \times 1,00,000)\,x_1 + (0.15 \times 60,000)\,x_2 + (0.08 \times 40,000)\,x_3$$

$$= 20,000x_1 + 9,000x_2 + 3,200x_3$$

Constraints:

The budgeted amount for the advertisements is at the most ₹1,00,000

Hence, $8,000x_1 + 6,000x_2 + 5,000x_3 \leq 1,00,000$

Also, the magazine M should have no more than 15 advertisements, N and O each should get at least 8 advertisements.

Hence,

$$x_1 \leq 15,$$

$$x_2 \geq 8 \text{ and}$$

$$x_3 \geq 8$$

The linear programming model for the problem:

Maximise

$$Z = 20,000x_1 + 9,000x_2 + 3,200x_3$$

Subject to the Constraints:

$$8,000x_1 + 6,000x_2 + 5,000x_3 \leq 1,00,000$$

	x_1	$\leq$	15
	x_2	$\geq$	8
	x_3	$\geq$	8
Where	x_1, x_2 and x_3	$\geq$	0

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

	P	Q	R	S	T
X_1	18	22	30	20	22
X_2	24	18	M	20	18
X_3	M	22	28	22	14
X_4	28	16	24	14	16
X_5 (Dummy)	0	0	0	0	0

Step 1

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

	P	Q	R	S	T
X_1	0	4	12	2	4
X_2	6	0	M	2	0
X_3	M	8	14	8	0
X_4	14	2	10	0	2
X_5 (Dummy)	0	0	0	0	0

Step 2

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

	P	Q	R	S	T
X_1	0	4	12	2	4
X_2	6	0	M	2	0
X_3	M	8	14	8	0
X_4	14	2	10	0	2
X_5 (Dummy)	0	0	0	0	0

Step 3

Draw lines to connect the zeros as under-

	P	Q	R	S	T
X_1	$\boxed{0}$	4	12	2	4
X_2	6	$\boxed{0}$	M	2	0
X_3	M	8	14	8	$\boxed{0}$
X_4	14	2	10	$\boxed{0}$	2
X_5 (Dummy)	0	0	$\boxed{0}$	0	0

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

	P	Q	R	S	T
X_1	$\boxed{0}$	4	12	2	4
X_2	6	$\boxed{0}$	M	2	$\cancel{0}$
X_3	M	8	14	8	$\boxed{0}$
X_4	14	2	10	$\boxed{0}$	2
X_5 (Dummy)	$\cancel{0}$	$\cancel{0}$	$\boxed{0}$	$\cancel{0}$	$\cancel{0}$

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

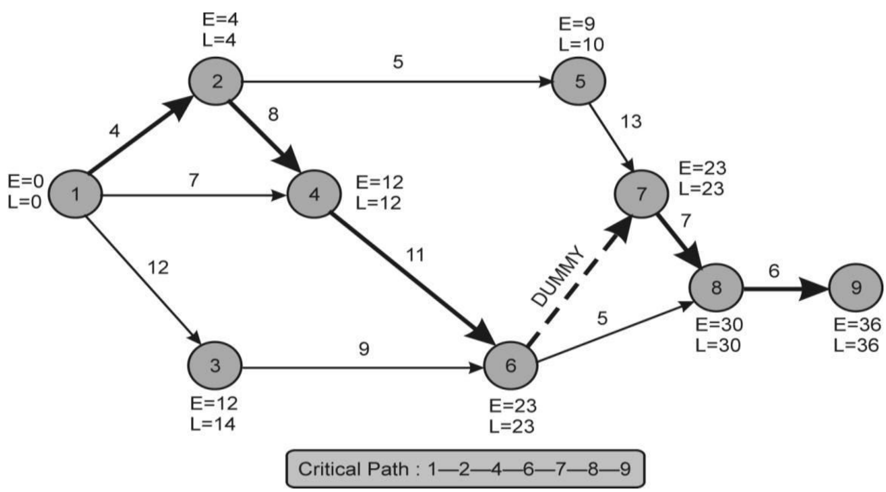
Machines	Location	Costs (₹)
X_1	P	18
X_2	Q	18
X_3	T	14
X_4	S	14
X_5 (Dummy)	R	0
	Total	64

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

Activity	Duration	EST	EFT	LST	LFT	Total Float
	D_{ij}	E_i	$E_i + D_{ij}$	$L_j - D_{ij}$	L_j	LST− EST
1–2	4	0	4	0	4	0

1–3	12	0	12	2	14	2
1–4	7	0	7	5	12	5
2–4	8	4	12	4	12	0
2–5	5	4	9	5	10	1
3–6	9	12	21	14	23	2
4–6	11	12	23	12	23	0
5–7	13	9	22	10	23	1
6–7	0	23	23	23	23	0
6–8	5	23	28	25	30	2
7–8	7	23	30	23	30	0
8–9	6	30	36	30	36	0

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



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

1–2–4–6–7–8–9 with Duration 36 Days

1–2–5–7–8–9 with Duration 35 Days

1–3–6–7–8–9 with Duration 34 Days

1–2–4–6–8–9 with Duration 34 Days

1–3–6–8–9 with Duration 32 Days

1–4–6–7–8–9 with Duration 31 Days

1–4–6–8–9 with Duration 29 Days

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

21. Allocation of Random Numbers

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

Simulation Table (₹ in 000)

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

22. (i) Cumulative Average Time for 256 parts = 48.43 hrs.*
[$112.50 \times (0.90^8)$]

Total Time for 256 parts = 12,398.08 hrs.
[48.43 hrs.× 256 parts]

Total Labour Cost of 256 parts = ₹ 2,47,961.60
[12,398.08 hrs.× ₹ 20]

Revised Labour Cost for *zero profit* = ₹ 3,22,961.60
[₹ 2,47,961.60 + ₹ 75,000]

Total Time for 256 parts (Revised) = 16,148.08 hrs.
[₹ 3,22,961.60/₹ 20]

Cumulative Average Time for 256 parts (Rev.)= 63.08 hrs.
[16,148.08/256]

The usual learning curve model is

$$y = ax^b$$

Where

y	=	Cumulative Average Time per part for x parts
a	=	Time required for first part
x	=	Cumulative number of parts
b	=	Learning coefficient (log r/log 2)

Accordingly

$\Rightarrow \quad 63.08 = 112.50 \times (256)^{b}$

$\Rightarrow \quad 0.5607 = 2^{8b}$

$\Rightarrow \quad \log 0.5607 = \log 2^{8b}$

$\Rightarrow \quad \log 0.5607 = 8 \times b \times \log 2$

$\Rightarrow \quad \log 0.5607 = 8 \times \dfrac{\log r}{\log 2} \times \log 2$

$\Rightarrow \quad \log 0.5607 = 8 \log r$

$\Rightarrow \quad \log 0.5607 = \log r^{8}$

$\Rightarrow \quad 0.5607 = r^{8}$

$\Rightarrow \quad r = \sqrt[8]{0.5607}$

$\Rightarrow \quad r = 0.9302$

Learning Rate (r) = 93.02%.

Therefore

Sensitivity = 3.02/90

= 3.36%

☞

Students may also take 48.38 hrs. (112.50 × 0.43)

23. (i)

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

(ii)

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

24. (i) Invalid

(ii) Invalid

(iii) Invalid

(iv) Valid

(v) Valid

25. (i) Invalid

(ii) Valid

(iii) Valid

(iv) Valid

(v) Valid

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

QUESTIONS

Concepts of Governance and Management of Information Systems

1. You are appointed as an Internal Auditor in XYZ enterprise. As an internal auditor, what shall be your perspective while evaluating IT Governance of an enterprise?

2. (a) Discuss Risk Management Strategies in detail.

   (b) What do you understand by "Information Systems Risks"? Discuss broadly the characteristics of risk.

3. (a) Discuss the seven categories of enablers of COBIT 5?

   (b) Discuss various key management practices for assessing and evaluating the system of internal controls in an enterprise.

Information System Concepts

4. "Decision Support Systems (DSS) are widely used as part of an Organization's Accounting Information System". Give examples to support this statement.

5. What is Executive Information Systems (EIS)? Explain major characteristics of an EIS.

6. What do you mean by the term "Information"? Discuss different attributes of it.

Protection of Information Systems

7. Discuss Data Resource Management Controls under Managerial Controls.

8. Why is there an emergence of Quality Assurance Management Controls in organizations?

9. As a senior manager of an organization ABC, what do you think are the major functions performed by you while performing Information Systems (IS) functions in the organization?

Business Continuity Planning and Disaster Recovery Planning

10. (a) Discuss the maintenance tasks undertaken in the development of a Business Continuity Plan (BCP) in brief.

    (b) A company has decided to outsource its recovery process to a third-party site. What are the issues that should be considered by the security administrators while drafting the contract?

11. Discuss Differential Backup, its advantages and disadvantages.

12. An enterprise XYZ implemented a Business Continuity Plan and decided to get its plan audited. What factors should be verified while auditing or self-assessment of the enterprise's Business Continuity Management (BCM) program?

Acquisition, Development and Implementation of Information Systems

13. Discuss various System Changeover Strategies under System Implementation phase of System Development Life Cycle (SDLC).
14. Discuss various issues that should be considered while designing systems input.
15. Discuss the Waterfall Model, its strengths and weaknesses in brief.

Auditing of Information Systems

16. As an auditor, what do you think are the advantages of using Continuous Audit Techniques?
17. Why do we need to perform Audit of Information Systems?
18. What do you understand by the term "Audit Trails"? How Audit Trails can be used to support security objectives?

Information Technology Regulatory Issues

19. ABC Ltd. is a security market intermediary, providing depository services. Briefly explain the relevant requirements with respect to annual systems audit mandated by SEBI (Securities and Exchange Board of India) in this regard.
20. Describe the 'Tampering with Computer Source Documents' in the light of Section 65 of Information Technology Act 2000.

Emerging Technologies

21. Discuss emerging Bring Your Own Devices (BYOD) Threats.
22. Discuss the characteristics and advantages of Community Cloud in Cloud Computing.

Short Note Based Questions

23. Write short notes on following:
    (a) PDCA cyclic process
    (b) Role of IS Auditor in reviewing Physical Access Controls
    (c) Benefits of Governance of Enterprise IT (GEIT)
    (d) Information Technology General Controls (ITGC)
    (e) Business Continuity Plan (BCP) Manual

24. Differentiate between the following:

    (a) Explicit Knowledge and Tacit Knowledge

    (b) Program Debugging and Program Documentation

    (c) Manual Logging and Electronic Logging

    (d) Identity as a Service (IDaaS) and Security as a Service(SECaaS)

    (e) Control Risk and Detection Risk

Questions based on the Case Studies

25. XYZ Technical University, a newly formed university, decided to launch a web based knowledge portal to facilitate their students of distance education for different courses. It proposed to upload the course materials, e - lectures and e-reference books. It is expected to provide various resources easily on anytime and anywhere basis. Therefore, an initial study or investigation under all dimensions was done. As a part of this, the management of the university invited various technical experts for a capable and good solution as per the requirements and guidelines of the university. Also, the University decided to encourage people to collaborate and share information online through social networks.

    (a) According to you as an IS Auditor, what are the validation methods for approving the vendors' proposals?

    (b) The university will facilitate the communication system to interact with their students effectively and economically by using Electronic Mail systems. What are the features of the Electronic Mail System?

SUGGESTED ANSWERS/HINTS

1. As an Internal Auditor in XYZ enterprise, the perspective while evaluating IT governance of an enterprise are as follows:

- **Leadership:** The following aspects need to be verified by the auditor:
    - Evaluate the relationship between IT objectives and the current/strategic needs of the organization and the ability of IT leadership to effectively communicate this relationship to IT and organizational personnel.
    - Assess the involvement of IT leadership in the development and on-going execution of the organization's strategic goals.
    - Determine how IT will be measured in helping the organization achieve these

goals.

   - Review how roles and responsibilities are assigned within the IT organization and how they are executed.
   - Review the role of senior management and the board in helping establish and maintain strong IT governance.

- **Organizational Structure:** The following aspects need to be assessed by the auditor:
   - Review how organization management and IT personnel are interacting and communicating current and future needs across the organization.
   - This should include the existence of necessary roles and reporting relationships to allow IT to meet the needs of the organization, while providing the opportunity to have requirements addressed via formal evaluation and prioritization. In addition, how IT mirrors the organization structure in its enterprise architecture should also be included.
- **Processes:** The following aspects need to be checked by the auditor:
   - Evaluate IT process activities and the controls in place to mitigate risks to the organization and whether they provide the necessary assurance regarding processes and underlying systems.
   - What processes are used by the IT organization to support the IT environment and consistent delivery of expected services?
- **Risks:** The following aspects need to be reviewed by the auditor:
   - Review the processes used by the IT organization to identify, assess, and monitor/mitigate risks within the IT environment.
   - Additionally, determine the accountability that personnel have within risk management and how well these expectations are being met.
- **Controls:** The following aspects need to be verified by the auditor:
   - Assess key controls that are defined by IT to manage its activities and the support of the overall organization.
   - Ownership, documentation, and reporting of self-validation aspects should be reviewed by the internal audit activity.
   - Additionally, the control set should be robust enough to address identified risks based on the organization's risk appetite and tolerance levels, as well as any compliance requirements.

- **Performance Measurement/Monitoring:** The following aspects need to be verified by the auditor:
    - Evaluate the framework and systems in place to measure and monitor organizational outcomes where support from IT plays an important part in the internal outputs in IT operations and developments.

2. **(a)** The Risk Management Strategies are as follows:

- **Tolerate/Accept the risk:** One of the primary functions of management is managing risk. Some risks may be considered minor because their impact and probability of occurrence is low. In this case, consciously accepting the risk as a cost of doing business is appropriate, as well as periodically reviewing the risk to ensure its impact remains low.
- **Terminate/Eliminate the risk:** It is possible for a risk to be associated with the use of a particular technology, supplier, or vendor. The risk can be eliminated by replacing the technology with more robust products and by seeking more capable suppliers and vendors.
- **Transfer/Share the risk:** Risk mitigation approaches can be shared with trading partners and suppliers. A good example is outsourcing infrastructure management. In such a case, the supplier mitigates the risks associated with managing the IT infrastructure by being more capable and having access to more highly skilled staff than the primary organization. Risk also may be mitigated by transferring the cost of realized risk to an insurance provider.
- **Treat/mitigate the risk:** Where other options have been eliminated, suitable controls must be devised and implemented to prevent the risk from manifesting itself or to minimize its effects.
- **Turn back:** Where the probability or impact of the risk is very low, then management may decide to ignore the risk.

(b) **Information Systems Risks:** Risk is the possibility of something adverse happening, resulting in potential loss/exposure. Risk management is the process of assessing risk, taking steps to reduce risk to an acceptable level and maintaining that level of risk. Risk management involves identifying, measuring, and minimizing uncertain events affecting resources. Any Information system based on IT has its inherent risks. These risks cannot be eliminated but they can be mitigated by appropriate security. If controls are unavailable or inadequate or inappropriate, then there would be a control weakness, which must be reported to auditee management with appropriate recommendations to mitigate them.

The risks in IT environment are mitigated by providing appropriate and adequate IS Security. IS security is defined as "procedures and practices to assure that computer facilities are available at all required times, that data is processed completely and efficiently and that access to data in computer systems is restricted to authorized people".

Some of the common sources of risk are Commercial and Legal Relationships; Economic Circumstances; Human Behavior; Natural Events; Political Circumstances; Technology and Technical Issues; Management Activities and Controls, and Individual Activities.

Broadly, Risk has the following characteristics:

- Loss potential that exists as the result of threat/vulnerability process;
- Uncertainty of loss expressed in terms of probability of such loss; and
- The probability/likelihood that a threat agent mounting a specific attack against a system.

3. (a) The COBIT 5 framework describes seven categories of enablers, which are as follows:

- **Principles, Policies and Frameworks** are the vehicle to translate the desired behavior into practical guidance for day-to-day management.
- **Processes** describe an organized set of practices and activities to achieve certain objectives and produce a set of outputs in support of achieving overall IT-related goals.
- **Organizational structures** are the key decision-making entities in an enterprise.
- **Culture, Ethics and Behavior** of individuals and of the enterprise is very often underestimated as a success factor in governance and management activities.
- **Information** is pervasive throughout any organization and includes all information produced and used by the enterprise. Information is required for keeping the organization running and well governed, but at the operational level, information is very often the key product of the enterprise itself.
- **Services, Infrastructure and Applications** include the infrastructure, technology and applications that provide the enterprise with information technology processing and services.

- **People, Skills and Competencies** are linked to people and are required for successful completion of all activities and for making correct decisions and taking corrective actions.

(b) The key management practices for assessing and evaluating the system of internal controls in an enterprise are as follows:

- **Monitor Internal Controls:** Continuously monitor, benchmark and improve the IT control environment and control framework to meet organizational objectives.
- **Review Business Process Controls Effectiveness:** Review the operation of controls, including a review of monitoring and test evidence to ensure that controls within business processes operate effectively. It also includes activities to maintain evidence of the effective operation of controls through mechanisms such as periodic testing of controls, continuous controls monitoring, independent assessments, command and control centers, and network operations centers. This provides the business with the assurance of control effectiveness to meet requirements related to business, regulatory and social responsibilities.
- **Perform Control Self-assessments:** Encourage management and process owners to take positive ownership of control improvement through a continuing program of self- assessment to evaluate the completeness and effectiveness of management's control over processes, policies and contracts.
- **Identify and Report Control Deficiencies:** Identify control deficiencies and analyze and identify their underlying root causes. Escalate control deficiencies and report to stakeholders.
- **Ensure that assurance providers are independent and qualified:** Ensure that **the** entities performing assurance are independent from the function, groups or organizations in scope. The entities performing assurance should demonstrate an appropriate attitude and appearance, competence in the skills and knowledge necessary to perform assurance, and adherence to codes of ethics and professional standards.
- **Plan Assurance Initiatives:** Plan assurance initiatives based on enterprise objectives and conformance objectives, assurance objectives and strategic priorities, inherent risk resource constraints, and sufficient knowledge of the enterprise.

- **Scope assurance initiatives:** Define and agree with management on the scope of the assurance initiative, based on the assurance objectives.
- **Execute assurance initiatives:** Execute the planned assurance initiative. Report on identified findings. Provide positive assurance opinions, where appropriate, and recommendations for improvement relating to identified operational performance, external compliance and internal control system residual risks.

4. Decision Support Systems (DSS) are widely used as a part of an organization's Accounting Information System. The complexity and nature of decision support systems vary. Many are developed in-house using either a general type of decision support program or a spreadsheet program to solve specific problems. Below are several illustrations:

- **Cost Accounting System:** The health care industry is well known for its cost complexity. Managing costs in this industry requires controlling costs of supplies, expensive machinery, technology, and a variety of personnel. Cost accounting applications help health care organizations calculate product costs for individual procedures or services. Decision support systems can accumulate these product costs to calculate total costs per patient. Health care managers may combine cost accounting decision support systems with other applications, such as productivity systems. Combining these applications allows managers to measure the effectiveness of specific operating processes
- **Capital Budgeting System:** Companies require new tools to evaluate high-technology investment decisions. Decision makers need to supplement analytical techniques, such as net present value and internal rate of return, with decision support tools that consider some benefits of new technology not captured in strict financial analysis. Example- Auto Man is a DSS designed to support decisions about investments in automated manufacturing technology that allows decision makers to consider financial, nonfinancial, quantitative, and qualitative factors in their decision-making processes.
- **Budget Variance Analysis System:** Financial institutions rely heavily on their budgeting systems for controlling costs and evaluating managerial performance. One institution uses a computerized decision support system to generate monthly variance reports for division comptrollers. The system allows these comptrollers to graph, view, analyze, and annotate budget variances, as well as create additional one-and five-year budget projections using the forecasting tools provided in the system. The decision support system thus helps the comptrollers create and control budgets for the cost-center managers reporting to them.

- **General Decision Support System:** Some planning languages used in decision support systems are general purpose and therefore have the ability to analyze many different types of problems. In a sense, these types of decision support systems are a decision-maker's tools. The user needs to input data and answer questions about a specific problem domain to make use of this type of decision support system. An example is a program called Expert Choice that supports a variety of problems requiring decisions. The user works interactively with the computer to develop a hierarchical model of the decision problem. The decision support system then asks the user to compare decision variables with each other. For instance, the system might ask the user how important cash inflows are versus initial investment amount to a capital budgeting decision. The decision maker also makes judgments about which investment is best with respect to these cash flows and which requires the smallest initial investment. Expert Choice analyzes these judgments and presents the decision maker with the best alternative.

5. **Executive Information Systems (EIS):** It is also referred to as an Executive Support System (ESS) that serves at the strategic level i.e. top level managers of the organization. ESS creates a generalized computing and communications environment rather than providing any preset applications or specific competence.

   Major characteristics of an EIS are as follows:

   - It is a Computer-based-information system that serves the information need of top executives.
   - EIS enables users to extract summary data and model complex problems without the need to learn query languages statistical formulas or high computing skills.
   - It provides rapid access to timely information and direct access to management reports.
   - EIS is capable of accessing both internal and external data.
   - EIS provides extensive online analysis tool like trend analysis, market conditions etc.
   - EIS can easily be given as a DSS support for decision making.

6. **Information:** Technically, Information means processed data. Information relates to description, definition, or perspective (what, who, when, where) and may be represented in the form of text, graph, pictures, voice, videos etc.

   Information is essential because it adds knowledge, helps in decision making, analyzing the future and taking action in time. Information products produced by an information system can be represented by number of ways e.g. paper reports, visual displays, multimedia documents, electronic messages, graphics images, and audio responses.

Some of the important attributes of useful and effective information are as follows:

- **Availability -** 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 purpose/objective at the time it is transmitted to a person or machine, otherwise it is simple data. 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 mode of communicating information to humans should be in such a way that it is easily understandable by the people. The mode may be in the form of voice, text and combination of these two. Format should also be designed in such a way that it assists in decision making, solving problems, initiating planning, controlling and searching.
- **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.
- **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 report of sales shows 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 the 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.

7. **Data Resource Management Controls:** Many organizations now recognize that data is a critical resource that must be managed properly and therefore, accordingly, centralized planning and control are implemented. For data to be managed; better users must be able to share data; data must be available to users when it is needed, in the location where it is needed, and in the form in which it is needed. Further it must be possible to modify data fairly easily and the integrity of the data be preserved. If data repository system is used properly, it can enhance data and application system reliability. It must be controlled carefully, however, because the consequences are serious if the data definition is compromised or destroyed. Careful control should be exercised over the roles by appointing senior, trustworthy persons, separating duties to the extent possible and maintaining and monitoring logs of the data administrator's and database administrator's activities.

   The control activities involved in maintaining the integrity of the database is as under:

   (a) **Definition Controls:** These controls are placed to ensure that the database always corresponds and comply with its definition standards.

(b) **Existence/Backup Controls:** These ensure the existence of the database by establishing backup and recovery procedures. Backup refers to making copies of the data so that these additional copies may be used to restore the original data after a data loss. Backup controls ensure the availability of system in the event of data loss due to unauthorized access, equipment failure or physical disaster; the organization can retrieve its files and databases. Various backup strategies are Dual recording of data; Periodic dumping of data; Logging input transactions; and Logging changes to the data.

(c) **Access Controls:** Access controls are designed to prevent unauthorized individual from viewing, retrieving, computing or destroying the entity's data. Controls are established in the following manner:

- User Access Controls through passwords, tokens and biometric Controls; and
- Data Encryption: Keeping the data in database in encrypted form.

(d) **Update Controls:** These controls restrict update of the database to authorized users in two ways:

- By permitting only addition of data to the database; and
- Allowing users to change or delete existing data.

(e) **Concurrency Controls:** These controls provide solutions, agreed-upon schedules and strategies to overcome the data integrity problems that may arise when two update processes access the same data item at the same time.

(f) **Quality Controls:** These controls ensure the accuracy, completeness, and consistency of data maintained in the database. This may include traditional measures such as program validation of input data and batch controls over data in transit through the organization.

8. The reasons for the emergence of Quality Assurance Management Controls in many organizations are as follows:

- Organizations are increasingly producing safety-critical systems and users are becoming more demanding in terms of the quality of the software they employ to undertake their work;
- Organizations are undertaking more ambitious projects when they build software;
- Users are becoming more demanding in terms of their expectations about the quality of software they employ to undertake their work;

- Organizations are becoming more concerned about their liabilities if they produce and sell defective software;
- Poor quality control over the production, implementation, operation, and maintenance of software can be costly in terms of missed deadlines, dissatisfied users and customer, lower morale among IS staff, higher maintenance and strategic projects that must be abandoned; and
- Improving the quality of Information Systems is a part of a worldwide trend among organizations to improve the quality of the goods and services they sell.

Quality Assurance (QA) personnel should work to improve the quality of information systems produced, implemented, operated, and maintained in an organization. They perform a monitoring role for management to ensure that –

- Quality goals are established and understood clearly by all stakeholders; and
- Compliance occurs with the standards that are in place to attain quality information systems.

9. The major functions that a senior manager must perform while performing Information Systems (IS) functions in the organization are as follows:

(a) **Planning –** This includes determining the goals of the information systems function and the means of achieving these goals. To achieve this – the plan is to be prepared with different types of Plans and the Role of a Steering Committee should be defined clearly.

(b) **Organizing –** There should be a prescribed IT organizational structure with documented roles and responsibilities and agreed job descriptions. This includes gathering, allocating, and coordinating the resources needed to accomplish the goals that are established during Planning function.

(c) **Leading –** This includes motivating, guiding, and communicating with personnel. The purpose of leading is to achieve the harmony of objectives; ie.. a person's or group's objectives must not conflict with the organization's objectives. The process of leading requires managers to motivate subordinates, direct them and communicate with them.

(d) **Controlling –** This includes comparing actual performance with planned performance as a basis for taking any corrective actions that are needed. This involves determining when the actual activities of the information system's functions deviate from the planned activities.

10. (a) The maintenance tasks undertaken in Development of Business Continuity Plan (BCP) are as follows:

- Determine the ownership and responsibility for maintaining the various BCP strategies within the enterprise;
- Identify the BCP maintenance triggers to ensure that any organizational, operational, and structural changes are communicated to the personnel who are accountable for ensuring that the plan remains up-to-date;
- Determine the maintenance regime to ensure the plan remains up-to-date;
- Determine the maintenance processes to update the plan; and
- Implement version control procedures to ensure that the plan is maintained up-to-date.

(b) If a third-party site is to be used for backup and recovery purposes, security administrators must ensure that a contract is written to cover issues such as

- how soon the site will be made available subsequent to a disaster;
- the number of organizations that will be allowed to use the site concurrently in the event of a disaster;
- the priority to be given to concurrent users of the site in the event of a common disaster;
- the period during which the site can be used;
- the conditions under which the site can be used;
- the facilities and services the site provider agrees to make available; and
- what controls will be in place and working at the off-site facility.

11. Differential Backup: Differential backups fall in the middle between full backups and incremental backup. A Differential Backup stores files that have changed since the last full backup. With differential backups, one full backup is done first and subsequent backup runs are the changes made since the last full backup. Therefore, if a file is changed after the previous full backup, a differential backup takes less time to complete than a full back up.

For example - Suppose a differential backup job or task is to be done every night from Monday to Friday. On Monday, the first backup will be a full backup since no prior backups have been taken. On Tuesday, the differential backup will only backup the files that have changed since Monday and any new files added to the backup folders. On Wednesday, the files changed and files added since Monday's full backup will be copied again. While Wednesday's backup does not include the files from the first full backup, it still contains the files backed up on Tuesday.

Advantages of Differential Backup are as follows:

- Much faster backups then full backups.
- More efficient use of storage space then full backups since only files changed since the last full backup will be copied on each differential backup run.
- Faster restores than incremental backups.

Disadvantages of Differential Backup are as follows:

- Backups are slower then incremental backups.
- Not as efficient use of storage space as compared to incremental backups. All files added or edited after the initial full backup will be duplicated again with each subsequent differential backup.
- Restores are slower than with full backups.
- Restores are a little more complicated than full backups but simpler than incremental backups. Only the full backup set and the last differential backup are needed to perform a restore.

12. An audit or self-assessment of the enterprise's Business Continuity Management (BCM) program should verify the following factors:

- All key products and services and their supporting critical activities and resources have been identified and included in the enterprise's BCM strategy;
- The enterprise's BCM policy, strategies, framework and plans accurately reflect its priorities and requirements (the enterprise's objectives);
- The enterprise' BCM competence and its BCM capability are effective and fit-for-purpose and will permit management, command, control and coordination of an incident;
- The enterprise's BCM solutions are effective, up-to-date and fit-for-purpose, and appropriate to the level of risk faced by the enterprise;
- The enterprise's BCM maintenance and exercising programs have been effectively implemented;
- BCM strategies and plans incorporate improvements identified during incidents and exercises and in the maintenance program;
- The enterprise has an ongoing program for BCM training and awareness;

- BCM procedures have been effectively communicated to relevant staff, and that those staff understand their roles and responsibilities; and
- Change control processes are in place and operate effectively.

13. **System Change-Over Strategies:** Conversion or changeover is the process of changing over or shifting over from the old system (may be the manual system) to the new system. It requires careful planning to establish the basic approach to be used in the actual changeover, as it may put many resources/assets/operations at risk. The Four types of popular implementation strategies are described as follows:
    - **Direct Implementation / Abrupt Change-Over:** This is achieved through an abrupt takeover – an all or no approach. With this strategy, the changeover is done in one operation, completely replacing the old system in one go. Direct Implementation, which usually takes place on a set date, often after a break in production or a holiday period so that time can be used to get the hardware and software for the new system installed without causing too much disruption.
    - **Phased Changeover:** With this strategy, implementation can be staged with conversion to the new system taking place gradually. For example, some new files may be converted and used by employees whilst other files continue to be used on the old system i.e. the new is brought in stages (phases). If a phase is successful then the next phase is started, eventually leading to the final phase when the new system fully replaces the old one.
    - **Pilot Changeover:** With this strategy, the new system replaces the old one in one operation but only on a small scale. Any errors can be rectified or further beneficial changes can be introduced and replicated throughout the whole system in good time with the least disruption. For example - it might be tried out in one branch of the company or in one location. If successful, then the pilot is extended until it eventually replaces the old system completely.
    - **Parallel Changeover:** This is considered the most secure method with both systems running in parallel over an introductory period. The old system remains fully operational while the new systems come online. With this strategy, the old and the new system are both used alongside each other, both being able to operate independently. If all goes well, the old system is stopped and new system carries on as the only system.

14. Input design consists of developing specifications and procedures for data preparation, developing steps which are necessary to put transactions data into a usable form for processing, and data-entry, i.e., the activity of putting the data into the computer for

processing. Major areas that should be considered while designing systems input are as follows:

(i) Content: The analyst is required to consider the types of data that are needed to be gathered to generate the desired user outputs. Sometimes, the data needed for a new system are not available within the organization. Hence, the system designer has to prepare new documents for collecting such information.

(ii) Timeliness: In data processing, it is very important that data is inputted to computer in time because outputs cannot be produced until certain inputs are available. Hence, a plan must be established regarding when different types of inputs will enter the system.

(iii) Media: Various user input alternatives are available in the market such as workstations, magnetic disc, OCR, pen-based computers and voice input etc. A suitable medium may be selected depending on the application to be computerized.

(iv) Format: After the data contents and media requirements are determined, input formats are considered. While specifying the record formats, for instance, the type and length of each data field as well as any other special characteristics must be defined. Designing input formats often requires the assistance of a professional programmer or database administrator.

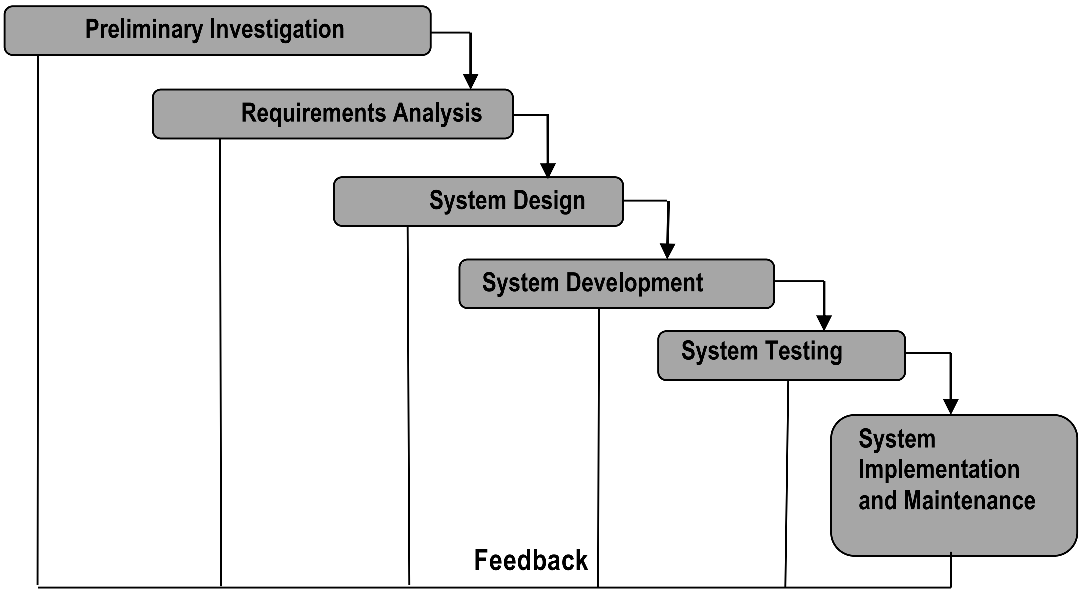
(v) Input Volume: Input volume refers to the amount of data that has to be entered in the computer system at any one time. For example, in some decision-support systems and many real-time transaction processing systems, input volume is light which involves data entry department using key-to-tape or key-to-disk systems.

15. Waterfall Model: The waterfall approach is a traditional development approach in which each phase is carried in sequence or linear fashion. These phases include requirements analysis, specifications and design requirements, coding, final testing, and release. In this traditional approach of system development, activities are performed in sequence. The tasks that are performed during each phase of the traditional approach is shown in the Fig. below. When the traditional approach is applied, an activity is undertaken only when the prior step is fully completed.

Major strengths of Waterfall Model are 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.



Some of the weaknesses of the Waterfall Model are as follows:

- It is criticized to be inflexible, slow, costly, and cumbersome due to significant structure and tight controls.
- Project progresses forward, with only slight movement backward.
- There is a little to iterate, which may be essential in situations.
- It depends upon early identification and specification of requirements, even if the users may not be able to clearly define 'what they need early in the project'.
- Requirement inconsistencies, missing system components and unexpected development needs are often discovered during design and coding.
- Problems are often not discovered until system testing.
- System performance cannot be tested until the system is almost fully coded, and under capacity may be difficult to correct.
- It is difficult to respond to changes, which may occur later in the life cycle, and if undertaken it proves costly and are thus discouraged.
- It leads to excessive documentation, whose updation to assure integrity is an uphill task and often time-consuming.
- Written specifications are often difficult for users to read and thoroughly appreciate.

- It promotes the gap between users and developers with clear vision of responsibility.

16. Some of the advantages of using Continuous Audit Techniques are given as under:

- **Timely, Comprehensive and Detailed Auditing –** Evidence would be available more timely and in a comprehensive manner. The entire processing can be evaluated and analyzed rather than examining the inputs and the outputs only.
- **Surprise test capability –** As evidences are collected from the system itself by using continuous audit techniques, auditors can gather evidence without the systems staff and application system users being aware that evidence is being collected at that particular moment. This brings in the surprise test advantages.
- **Information to system staff on meeting of objectives** - Continuous audit techniques provides information to systems staff regarding the test vehicle to be used in evaluating whether an application system meets the objectives of asset safeguarding, data integrity, effectiveness, and efficiency.
- **Training for new users –** Using the ITFs, new users can submit data to the application system, and obtain feedback on any mistakes they make via the system's error reports.

17. Audit of Information Systems is required due to following reasons:

- **Organisational Costs of Data Loss:** Data is a critical resource of an organisation for its present and future process and its ability to adapt and survive in a changing environment.
- **Cost of Incorrect Decision Making:** Management and operational controls taken by managers involve detection, investigations and correction of the processes. These high level decisions require accurate data to make quality decision rules.
- **Costs of Computer Abuse:** Unauthorised access to computer systems, malwares, unauthorised physical access to computer facilities and unauthorised copies of sensitive data can lead to destruction of assets (hardware, software, data, information etc.)
- **Value of Computer Hardware, Software and Personnel***:* These are critical resources of an organisation, which has a credible impact on its infrastructure and business competitiveness.
- **High Costs of Computer Error:** In a computerised enterprise environment where many critical business processes are performed, a data error during entry or process would cause great damage.

- **Maintenance of Privacy:** Today, data collected in a business process contains private information about an individual too. These data were also collected before computers but now, there is a fear that privacy has eroded beyond acceptable levels.
- **Controlled evolution of computer Use:** Use of Technology and reliability of complex computer systems cannot be guaranteed and the consequences of using unreliable systems can be destructive.

18. **Audit Trails:** Audit trails are the 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. Many operating systems allow management to select the level of auditing to be provided by the system. This determines 'which events will be recorded in the log'. An effective audit policy will capture all significant events without cluttering the log with trivial activity.

    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. The accounting audit trail shows the source and nature of data and processes that update the database. The operations audit trail maintains a record of attempted or actual resource consumption within a system.

    Audit trails can be used to support security objectives in three ways:

    - **Detecting Unauthorized Access*:*** The primary objective of real-time detection is to protect the system from outsiders who are attempting to breach system controls. A real-time audit trail can also be used to report on changes in system performance that may indicate infestation by a virus or worm. Depending upon how much activity is being logged and reviewed; real-time detection can impose a significant overhead on the operating system, which can degrade operational performance.
    - **Reconstructing Events*:*** Audit analysis can be used to reconstruct the steps that led to events such as system failures, security violations by individuals, or application processing errors. Knowledge of the conditions that existed at the time of a system failure can be used to assign responsibility and to avoid similar situations in the future. Audit trail analysis also plays an important role in accounting control.
    - **Personal Accountability*:*** Audit trails can be used to monitor user activity at the lowest level of detail. This capability is a preventive control that can be used to influence behavior. Individuals are likely to violate an organization's security policy if they know that their actions are not recorded in an audit log.

19. SEBI (Securities and Exchange Board of India) mandated that exchanges shall conduct an annual system audit by a reputed independent auditor.

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

20. Section 65 of Information Technology Act, 2000 is about “Tampering with Computer Source Documents”. The section is -

Whoever knowingly or intentionally conceals, destroys or alters or intentionally or knowingly causes another to conceal, destroy or alter any computer source code used for a computer, computer programme, computer system or computer network, when the computer source code is required to be kept or maintained by law for the time being in force, shall be punishable with imprisonment up to three years, or with fine which may extend up to two lakh rupees, or with both.

Explanation - For the purposes of this section, "Computer Source Code" means the listing of programme, computer commands, design and layout and program analysis of computer resource in any form.

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

- **Network Risks:** It is normally exemplified and hidden in 'Lack of Device Visibility'. When company-owned devices are used by all employees within an organization, the organization's IT practice has complete visibility of the devices connected to the network. This helps to analyze traffic and data exchanged over the Internet. As BYOD permits employees to carry their own devices (smart phones, laptops for business use), the IT practice team is unaware about the number of devices being connected to the network. As network visibility is of high importance, this lack of visibility can be hazardous.
- **Device Risks:** It is normally exemplified and hidden in 'Loss of Devices'. A lost or stolen device can result in an enormous financial and reputational embarrassment to an organization as the device may hold sensitive corporate information. Data lost from stolen or lost devices ranks as the top security threats as per the rankings released by Cloud Security Alliance. With easy access to company emails as well as corporate intranet, company trade secrets can be easily retrieved from a misplaced device.
- **Application Risks:** It is normally exemplified and hidden in 'Application Viruses and Malware'. A related report revealed that a majority of employees' phones and smart devices that were connected to the corporate network weren't protected by security software. With an increase in mobile usage, mobile vulnerabilities have increased concurrently. Organizations are not clear in deciding that 'who is responsible for device security – the organization or the user'.
- **Implementation Risks:** It is normally exemplified and hidden in 'Weak BYOD Policy'. The effective implementation of the BYOD program should not only cover the technical issues mentioned above but also mandate the development of a robust implementation policy. Because corporate knowledge and data are key assets of an organization, the absence of a strong BYOD policy would fail to communicate employee expectations, thereby increasing the chances of device misuse. In addition to this, a weak policy fails to educate the user, thereby increasing vulnerability to the above-mentioned threats.

22. Characteristics of Community Clouds in Cloud Computing are as follows:

- **Collaborative and Distributive Maintenance:** In this, no single company has full control over the whole cloud. This is usually distributive and hence better cooperation provides better results.

- **Partially Secure:** This refers to the property of the community cloud where few organizations share the cloud, so there is a possibility that the data can be leaked from one organization to another, though it is safe from the external world.
- **Cost Effective:** As the complete cloud if being shared by several organizations or community, not only the responsibility gets shared; the community cloud becomes cost effective too.

Advantages of Community Clouds in Cloud Computing are as follows:

- It allows establishing a low-cost private cloud.
- It allows collaborative work on the cloud.
- It allows sharing of responsibilities among the organizations.
- It has better security than the public cloud.

23. (a) The PDCA cyclic process is explained below:

- ♦ **The Plan Phase (Establishing the Information Security Management System (ISMS)) –** This phase serves to plan the basic organization of information security, set objectives for information security and choose the appropriate security controls (the standard contains a catalogue of 133 possible controls).
- ♦ **The Do Phase (Implementing and Working of ISMS) –** This phase includes carrying out everything that was planned during the previous phase.
- ♦ **The Check Phase (Monitoring and Review of the ISMS) –** The purpose of this phase is to monitor the functioning of the ISMS through various "channels", and check whether the results meet the set objectives.
- ♦ **The Act Phase (Update and Improvement of the ISMS) –** The purpose of this phase is to improve everything that was identified as non-compliant in the previous phase.

(b) Role of IS Auditor in reviewing Physical Access Controls involves the following:

- ♦ **Risk Assessment:** The auditor must satisfy him/herself that the risk assessment procedure adequately covers periodic and timely assessment of all assets, physical access threats, vulnerabilities of safeguards and exposures there from.
- ♦ **Controls Assessment:** The auditor based on the risk profile evaluates whether the physical access controls are in place and adequate to protect the IS assets against the risks.

- **Review of Documents:** It requires examination of relevant documentation such as the security policy and procedures, premises plans, building plans, inventory list and cabling diagrams.

(c) Benefits of Governance of Enterprise IT (GEIT) are as follows:

- It provides a consistent approach integrated and aligned with the enterprise governance approach.
- It ensures that IT-related decisions are made in line with the enterprise's strategies and objectives.
- It ensures that IT-related processes are overseen effectively and transparently.
- It confirms compliance with legal and regulatory requirements.
- It ensures that the governance requirements for board members are met.

(d) **Information Technology General Controls (ITGC):** These are the basic policies and procedures that ensure that an organization's information systems are properly safeguarded, that application programs and data are secure, and that computerized operations can be recovered in case of unexpected interruptions. IT General Controls are the foundation for the overall IT control environment as they provide the assurance that systems operate as intended and that output is reliable.

ITGCs may also be referred to as General Computer Controls (GCC) which are defined as: Controls, other than application controls, which relate to the environment within which computer-based application systems are developed, maintained and operated, and which are therefore applicable to all applications. The objectives of general controls are to ensure the proper development and implementation of applications, the integrity of program and data files and of computer operations. Like application controls, general controls may be either manual or programmed. Examples of general controls include the development and implementation of an IS strategy and an IS security policy, the organization of IS staff to separate conflicting duties and planning for disaster prevention and recovery.

(e) **Business Continuity Plan (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. 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 liasioning teams between the functional area(s) affected and other departments providing support services.

24. (a) Explicit knowledge: Explicit knowledge is that which can be formalized easily and as a consequence is easily available across the organization. Explicit knowledge is articulated, and represented as spoken words, written material and compiled data. This type of knowledge is codified, easy to document, transfer and reproduce. For example – Online tutorials, Policy and procedural manuals.

Tacit knowledge: Tacit knowledge, on the other hand, resides in a few often-in just one person and hasn't been captured by the organization or made available to others. Tacit knowledge is unarticulated and represented as intuition, perspective, beliefs, and values that individuals form based on their experiences. It is personal, experimental and context-specific. It is difficult to document and communicate the tacit knowledge. For example – hand-on skills, special know-how, employee experiences.

(b) Program Debugging: Debugging is the most primitive form of testing activity, which refers to correcting programming language syntax and diagnostic errors so that the program compiles cleanly. A clean compile means that the program can be successfully converted from the source code written by the programmer into machine language instructions. Debugging can be a tedious task consisting of following four steps:

- Giving input the source program to the compiler,
- Letting the compiler to find errors in the program,
- Correcting lines of code that are erroneous, and
- Resubmitting the corrected source program as input to the compiler.

Program Documentation: The writing of narrative procedures and instructions for people, who will use software is done throughout the program life cycle. Managers and users should carefully review both internal and external documentation to ensure that the software and system behave as the documentation indicates. If they do not, documentation should be revised. User documentation should also be reviewed for understandability i.e. the documentation should be prepared in such a way that the user can clearly understand the instructions.

(c) **Manual Logging:** All visitors should be prompted to sign a visitor's log indicating their name, company represented, their purpose of visit, and person to see. Logging may happen at both fronts - reception and entrance to the computer room. A valid and acceptable identification such as a driver's license, business card or vendor identification tag may also be asked for before allowing entry inside the company.

Electronic Logging: This feature is a combination of electronic and biometric security systems. The users logging can be monitored and the unsuccessful attempts being highlighted.

(d) **Identity as a Service (IDaaS):** It is an ability given to the end users; typically, an organization or enterprise; to access the authentication infrastructure that is built, hosted, managed and provided by the third-party service provider. Generally, IDaaS includes directory services, authentication services, risk and event monitoring, single sign-on services, and identity and profile management.

Security as a Service(SECaaS): It is an ability given to the end user to access the security service provided by the service provider on a pay-per-use basis. It is a new approach to security in which cloud security is moved into the cloud itself whereby cloud service users will be protected from within the cloud using a unified approach to threats. Four mechanisms of Cloud security that are currently provided are Email filtering, Web content filtering, Vulnerability management and Identity management.

(e) **Control Risk:** Control risk is the risk that could occur in an audit area, and which could be material, individually or in combination with other errors, will not be prevented or detected and corrected on a timely basis by the internal control system. Control risk is a measure of the auditor's assessment of the likelihood that risk exceeding a tolerable level and will not be prevented or detected by the client's internal control system. This assessment includes an assessment of whether a client's internal controls are effective for preventing or detecting gaps and the auditor's intention to make that assessment at a level below the maximum (100 percent) as a part of the audit plan.

Detection Risk: Detection risk is the risk that the IT auditor's substantive procedures will not detect an error which could be material, individually or in combination with other errors. For example, the detection risk associated with identifying breaches of security in an application system is ordinarily high because logs for the whole period of the audit are not available at the time of the audit. The detection risk associated with lack of identification of disaster recovery plans is ordinarily low since existence is easily verified.

25. (a) **Methods of Validating the proposal:** Large organizations would naturally tend to adopt a sophisticated and objective approach to validate the vendor's proposal. Some of the validation methods for approving the vendor's proposal are as follows:

- **Checklists:** It is the most simple and a subjective method for validation and evaluation. The various criteria are put in check list in the form of suitable questions against which the responses of the various vendors are validated. For example, Support Service Checklists may have parameters like Performance; System development, Maintenance, Conversion, Training, Back-up, Proximity, Hardware and Software.

- **Point-Scoring Analysis:** Point-scoring analysis provides an objective means of selecting a final system. There are no absolute rules in the selection process, only guidelines for matching user needs with software capabilities. Thus, even for a small business, the evaluators must consider such issues as the company's data processing needs, its in-house computer skills, vendor reputations, software costs, and so forth.

- **Public Evaluation Reports:** Several consultancy as well as independent agencies compare and contrast the hardware and software performance for various manufacturers and publish their reports in this regard. This method has been frequently and usefully employed by several buyers in the past and is particularly useful where the buying staffs have inadequate knowledge of facts.

- **Benchmarking Problems related Vendor's Solutions:** Benchmarking problems related to vendors' proposals are accomplished by sample programs that represent at least a part of the buyer's primary work load and include considerations and can be current applications that have been designed to represent planned processing needs. That is, benchmarking problems are oriented towards testing whether a solution offered by the vendor meets the requirements of the job on hand of the buyer.

- **Testing Problems:** Test problems disregard the actual job mix and are devised to test the true capabilities of the hardware, software or system. For example, test problems may be developed to evaluate the time required to translate the source code (program in an assembly or a high level language) into the object code (machine language), response time for two or more jobs in multi-programming environment, overhead requirements of the operating system in executing a user program, length of time required to execute an instruction, etc.

(b) Various features of Electronic Mail are stated below:

- **Electronic Transmission -** The transmission of messages with email is electronic and message delivery is very quick, almost instantaneous. The confirmation of transmission is also quick and the reliability is very high.
- **Online Development and Editing -** The email message can be developed and edited online before transmission. The online development and editing eliminates the need for use of paper in communication. It also facilitates the storage of messages on magnetic media, thereby reducing the space required to store the messages.
- **Broadcasting and Rerouting -** Email permits sending a message to a large number of target recipients. Thus, it is easy to send a circular to all branches of a bank using Email resulting in a lot of saving of paper. The email could be rerouted to people having direct interest in the message with or without changing or and appending related information to the message.
- **Integration with other Information Systems -** The E-mail has the advantage of being integrated with the other information systems. Such integration helps in ensuring that the message if accurate and the information required for the message is accesses quickly.
- **Portability -** Email renders the physical location of the recipient and sender irrelevant. The email can be accessed from any Personal computer/tablet/smart phones equipped with the relevant communication hardware, software and link facilities.
- **Economical -** The advancements in communication technologies and competition among the communication service providers have made Email the most economical mode for sending and receiving messages. The email is very helpful for formal communication as well as informal communication within the enterprise.

PAPER 7 : DIRECT TAX LAWS

SECTION – A: STATUTORY UPDATE

The direct tax laws, as amended by the Finance Act, 2017, including significant notifications/circulars issued upto 31st October, 2017 are applicable for May, 2018 examination. The relevant assessment year for May, 2018 examination is A.Y.2018-19. The significant notifications/circulars issued upto 31.10.2017, relevant for May, 2018 examination but not covered in the August 2017 edition of the Study Material, are given hereunder.

MODULE - 1 OF STUDY MATERIAL

CHAPTER 1: BASIC CONCEPTS

Clarification regarding attaining prescribed age of 60 years/80 years on 31st March itself, in case of senior/very senior citizens whose date of birth falls on 1st April [Circular No. 28/2016, dated 27.07.2016]

An individual who is resident in India and of the age of 60 years or more (senior citizen) and 80 years or more (very senior citizen) is eligible for a higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000, respectively.

The contentious issue is regarding the attainment of the aforesaid qualifying ages for availing higher basic exemption limit in cases of the persons whose date of birth falls on 1st April of calendar year. In other words, the broader question under consideration is whether a person born on 1st April of a particular year can be said to have completed a particular age on 31st March, on the preceding day of his/her birthday, or on 1st April itself of that year.

The Supreme Court had an occasion to consider a similar issue in the case of *Prabhu Dayal Sesma vs. State of Rajasthan &, another 1986, AIR, 1948* wherein it has dealt with on the general rules to be followed for calculating the age of the person. The Apex Court observed that while counting the age of the person, whole of the day should be reckoned and it starts from 12 o'clock in the midnight and he attains the specified age on the day preceding, the anniversary of his birthday. In the absence of any express provision, it is well settled that any specified age in law is to be computed as having been attained on the day preceding the anniversary of the birthday.

The CBDT has, vide this Circular, clarified that a person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding the anniversary of his birthday. In particular, the question of attainment of age of eligibility for being considered a senior/very senior citizen would be decided on the basis of above criteria.

Therefore, a resident individual whose 60th birthday falls on 1st April, 2018, would be treated as having attained the age of 60 years in the P.Y.2017-18, and would be eligible for higher basic exemption limit of ₹ 3 lakh in computing his tax liability for A.Y.2018-19. Likewise, a resident individual whose 80th birthday falls on 1st April, 2018, would be treated as having attained the age of 80 years in the P.Y.2017-18, and would be eligible for higher basic exemption limit of ₹ 5 lakh in computing his tax liability for A.Y.2018-19.

CHAPTER 2: RESIDENCE AND SCOPE OF TOTAL INCOME

Clarification regarding liability to income-tax in India of a non-resident seafarer receiving remuneration in NRE (Non-Resident External) account maintained with an Indian Bank [Circular No.13/2017, dated 11.04.2017 and Circular No.17/2017, dated 26.04.2017]

Representations were received by the CBDT that income by way of salary, received by non-resident seafarers, for services rendered outside India on-board foreign ships, are being subjected to tax in India for the reason that the salary has been received by the seafarer into the NRE bank account maintained in India by the seafarer.

The CBDT has examined the matter. It noted that section 5(2)(a) of the Income-tax Act, 1961 provides that only such income of a non-resident shall be subjected to tax in India that is either received or is deemed to be received in India.

Accordingly, the CBDT has, vide this circular, clarified that that salary accrued to a non-resident seafarer for services rendered outside India on a foreign going ship (with Indian flag or foreign flag) shall not be included in the total income merely because the said salary has been credited in the NRE account maintained with an Indian bank by the seafarer.

Notification of Eligible Investment funds in respect of which certain conditions specified under section 9A(3) would not apply [Notification No. 77/2017, dated 03.08.2017]

Section 9A provides for special taxation regime to facilitate location of fund managers of off-shore funds in India. Under this regime, in case of an eligible investment fund, the fund management activity carried out through an eligible fund manager acting on behalf of such fund shall not constitute business connection in India of the said fund, subject to fulfilment of certain conditions.

Eligible investment fund means a fund established or incorporated or registered outside India, which collects funds from its members for investing it for their benefit and fulfils, *inter alia,* the following conditions, namely -

(e) the fund should have a minimum of twenty-five members who are, directly or indirectly, not connected persons;

(f) any member of the fund along with connected persons shall not have any participation interest, directly or indirectly, in the fund exceeding ten per cent;

(g) the aggregate participation interest, directly or indirectly, of ten or less members along with their connected persons in the fund, shall be less than fifty per cent.

The above conditions, however, would not apply in case of an investment fund set up by the Government or the Central Bank of a foreign State or a sovereign fund, or such other fund as the Central Government may subject to conditions, if any, by notification, specify in this behalf.

Accordingly, the Central Government has, vide this notification, specified that these conditions would not apply to an investment fund set up by a Category-I or Category-II Foreign Portfolio Investor registered under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014, made under the Securities and Exchange Board of India Act, 1992.

Clarification related to guidelines for establishing 'Place of Effective Management' (PoEM) in India [Circular No. 25/2017, dated 23.10.2017]

The concept of 'Place of Effective Management' (PoEM) for deciding residential status of a company, other than an Indian company, was introduced in the Income-tax Act, 1961 which has become effective from 1.4.2017, i.e., Assessment Year 2017-18 onwards.

The guiding principles for determination of PoEM of a company were issued on 24.01.2017 vide Circular No 06/2017. Further, vide Circular No 08/2017 dated 23.02.2017, it has been clarified that the PoEM provisions shall not apply to a company having turnover or gross receipts of Rs 50 crore or less in a financial year.

Thereafter, stakeholders had expressed concerns that as per the extant guidelines, PoEM may be triggered in cases of certain multinational companies with regional headquarter structure merely on the ground that certain employees having multi-country responsibility or oversight over the operations in other countries of the region are working from India, and consequently, their income from operations outside India may be taxed in India.

In this regard, it may be mentioned that Para 7 of the guidelines provides that the place of effective management in case of a company engaged in active business outside India (ABOI) shall be presumed to be outside India if the majority meetings of the board of directors (BoD) of the company are held outside India.

However, Para 7.1 of the guidelines provides that if on the basis of facts and circumstances, it is established that the Board of directors of the company are standing aside and not exercising their powers of management and such powers are being exercised by either the holding company or any other person(s) resident in India, then, the PoEM shall be considered to be in India.

It has also been provided that for this purpose, merely because the BoD follows general and objective principles of global policy of the group laid down by the parent entity which may be in the field of Pay roll functions, Accounting, Human resource (HR) functions, IT infrastructure and network platforms, Supply chain functions, Routine banking operational procedures, and not being specific to any entity or group of entities per se; would not constitute a case of BoD of companies standing aside.

In view of the above, it is clarified that so long as the Regional Headquarter operates for subsidiaries/ group companies in a region within the general and objective principles of global policy of the group laid down by the parent entity in the field of Pay roll functions, Accounting, HR functions, IT infrastructure and network platforms, Supply chain functions, Routine banking operational procedures, and not being specific to any entity or group of entities per se; it would, in itself, not constitute a case of BoD of companies standing aside and such activities of Regional Headquarter in India alone will not be a basis for establishment of PoEM for such subsidiaries/ group companies.

It is further mentioned in the said Circular that the provisions of General Anti-Avoidance Rule contained in Chapter X-A of the Income-tax Act, 1961 may get triggered in such cases where the above clarification is found to be used for abusive/ aggressive tax planning.

CHAPTER 6: PROFITS AND GAINS OF BUSINESS OR PROFESSION

Lease rent from letting out buildings/developed space along with other amenities in an Industrial Park /SEZ - to be treated as business income [Circular No. 16/2017, dated 25.04.2017]

The issue whether income arising from letting out of premises/developed space along with other amenities in an Industrial Park/SEZ is to be charged under head 'Profits and Gains of Business' or under the head 'Income from House Property' has been subject matter of litigation in recent years. Assessees claim the letting out as business activity, the income arising from which to be charged to tax under the head 'Profits and Gains of Business', whereas the Assessing Officers hold it to be chargeable under the head 'Income from House Property'.

The CBDT has considered the matter. Income from the Industrial Parks/SEZ established under various schemes framed and notified under section 80-IA(4)(iii) is liable to be treated as income from business provided the conditions prescribed under the schemes are met.

In the case of *Velankani Information Systems Pvt Ltd* (NJRS Citation [2013-LL-0402-44]), the Karnataka High Court observed that any other interpretation would defeat the object of section 80-IA and Government schemes for development of Industrial Parks in the country. SLPs filed in this case by the Department have been dismissed by the Supreme Court.

In a subsequent judgment dated 30.04.2014 in ITA No. 76 & 78/2012 in the case of *CIT v. Information Technology Park Ltd.* (NJRS Citation [2014-LL-0430-141], the Karnataka High Court has reaffirmed its earlier views. It has held that, since the assessee-company was engaged in the business of developing, operating and maintaining an Industrial Park and providing infrastructure facilities to different companies as its business, the lease rent received by the assessee from letting out buildings along with other amenities in a software technology park would be chargeable to tax under the head "Profits and gains of business or profession" and not under the head "Income from house property". The judgment has been accepted by the CBDT.

In view of the above, it is now a settled position that in the case of an undertaking which develops, develops and operates or maintains and operates an industrial park/SEZ notified in accordance with the scheme framed and notified by the Government, the income from letting out of premises/developed space along with other facilities in an industrial park/SEZ is to be charged to tax under the head 'Profits and Gains of Business'.

CHAPTER 7: CAPITAL GAINS

Long-term specified asset notified for the purpose of claiming exemption under section 54EC [Notification No. 47/2017, dated 08.06.2017 and Notification No. 79/2017, dated 08.08.2017]

Section 54EC provides exemption from chargeability of capital gain from the transfer of a long-term capital assets where the assessee has invested the whole or any part of the capital gain in a long-term specified asset. As per clause (ba) of *Explanation* to section 54EC "long term specified asset" means any bond redeemable after three years and issued on or after 01.04.07 by the National Highways Authority of India (NHAI) or by the Rural Electrification Corporation Limited (RECL) or any other bond notified by the Central Government in this behalf.

Accordingly, the Central Government has, vide these notifications, notified any bond redeemable after three years and issued by the **Power Finance Corporation Limited** on or after 15.06.17 or by the **Indian Railway Finance Corporation Limited** on or after 08.08.17 as 'long-term specified asset'.

CHAPTER 8: INCOME FROM OTHER SOURCES

Clarification regarding trade advance not to be treated as deemed dividend under section 2(22)(e) – [Circular No. 19/2017, dated 12.06.2017]

Section 2(22)(e) provides that "dividend" includes any payment by a company in which public are not substantially interested, of any sum by way of **advance or loan** to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

The CBDT observed that some Courts in the recent past have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(22)(e) and such views have attained finality.

Some illustrations/examples of trade advances/commercial transactions held to be **not** covered under section 2(22)(e) are as follows:

(i) Advances were made by a company to a sister concern and adjusted against the dues for job work done by the sister concern. It was held that amounts advanced for business transactions do not to fall within the definition of deemed dividend under section 2(22)(e) *[CIT vs. Creative Dyeing & Printing Pvt. Ltd. [NJRS] 2009-LL-0922-2, ITA No. 250 of 2009, Delhi High Court].*

(ii) Advance was made by a company to its shareholder to install plant and machinery at the shareholder's premises to enable him to do job work for the company so that the company could fulfil an export order. It was held that as the assessee proved business expediency, the advance was not covered by section 2(22)(e) [*CIT vs Amrik Singh, [NJRS] 2015-LL-0429-5, ITA No. 347 of 2013, P & H High Court]*

(iii) A floating security deposit was given by a company to its sister concern against the use of electricity generators belonging to the sister concern. The company utilised gas available to it from GAIL to generate electricity and supplied it to the sister concern at concessional rates. It was held that the security deposit made by the company to its sister concern was a business transaction arising in the normal course of business between two concerns and the transaction did not attract section 2(22)(e) *[CIT, Agra vs Atul Engineering Udyog, [NJRS] 2014-LL-0926-121, ITA No. 223 of 2011, Allahabad High Court]*

In view of the above, the CBDT has, vide this circular, clarified that it is a settled position that trade advances, which are in the nature of commercial transactions, would not fall within the ambit of the word 'advance' in section 2(22)(e) and therefore, the same would not to be treated as deemed dividend.

MODULE 2 OF STUDY MATERIAL

CHAPTER 11: DEDUCTIONS FROM GROSS TOTAL INCOME

Admissibility of deduction under Chapter VI-A on the profits enhanced due to disallowance of expenditure related to business activity [Circular No.37/2016, Dated 02.11.2016]

Chapter VI-A of the Income-tax Act, 1961, provides for deductions in respect of certain incomes. In computing the profits and gains of a business activity, the Assessing Officer may make certain disallowances, such as disallowances pertaining to sections 32, 40(a)(ia), 40A(3), 43B etc., of the Act. At times disallowance out of specific expenditure claimed may also be made. The effect of such disallowances is an increase in the profits.

The issue is whether such higher profits would also result in claim for a higher profit-linked deduction under Chapter VI-A.

The courts have generally held that if the expenditure disallowed is related to the business activity against which the Chapter VI-A deduction has been claimed, the deduction needs to be allowed on the enhanced profits. Some illustrative cases upholding this view are as follows:

(i) If an expenditure incurred by assessee for the purpose of developing a housing project was not allowable on account of non-deduction of TDS under law, such disallowance would ultimately increase assessee's profits from business of developing housing project. The ultimate profits of assessee after adjusting disallowance under section 40(a)(ia) would qualify for deduction under section 80-IB.

(ii) If deduction under section 40A(3) is not allowed, the same would have to be added to the profits of the undertaking on which the assessee would be entitled for deduction under section 80-IB.

In view of the aforesaid judgements, the CBDT has accepted the settled position that the disallowances made under sections 32, 40(a)(ia), 40A(3), 43B, etc. and other specific disallowances, related to the business activity against which the Chapter VI-A deduction has been claimed, result in enhancement of the profits of the eligible business, and that deduction under Chapter VI-A is admissible on the profits so enhanced by the disallowance.

Transport, Power and Interest subsidies received by an Industrial Undertaking - Eligibility for deduction under sections 80-IB, 80-IC etc., [Circular No. 39/2016, dated 29.11.2016]

The issue of whether revenue receipts such as transport, power and interest subsidies received by an Industrial Undertaking/eligible business are part of profits and gains of business derived from its business activities within the meaning of sections 80-IB/80-IC of the Income-tax Act, 1961 and, thus, eligible for claim of corresponding deduction under Chapter VI-A of the Act has been a contentious one. Such receipts are often treated as 'Income from other sources' by the Assessing Officers.

The Hon'ble Supreme Court in its judgment dated 9.3.2016 in the case of *Meghalaya Steels Ltd* and other cases has held that the subsidies of transport, power and interest given by the Government to the Industrial Undertaking are receipts which have been reimbursed for elements of cost relating to manufacture/sale of the products. Thus, there is a direct nexus between profit and gains of the industrial undertaking/business and reimbursement of such business subsidies. Accordingly, such subsidies are part of profits and gains of business derived from the Industrial Undertaking and are not to be included under the head 'Income from other sources'. Therefore, deduction is admissible under section 80-1B/80-IC of the Act on such revenue receipts derived from the Industrial Undertaking.

In view of the above, the CBDT has clarified that revenue subsidies received from the Government towards reimbursement of cost of production/manufacture or for sale of the manufactured goods are part of profits and gains of business derived from the Industrial Undertaking/eligible business, and are thus, admissible for applicable deduction under Chapter VI-A of the Act.

MODULE 3 OF STUDY MATERIAL

CHAPTER 15: DEDUCTION, COLLECTION AND RECOVERY OF TAX

Deduction of tax at source on interest income accrued to minor child, where both the parents have deceased [Notification No. 05/2017, dated 29.05.2017]

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

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), specified that in case of minors where both the parents have deceased, TDS on the interest income accrued to the minor is required to be deducted and reported against PAN of the minor child unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

Deduction of tax at source on interest on deposits made under Capital Gains Accounts Scheme, 1988 where depositor has deceased - Notification No. 08/2017, dated 13.09.2017

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), vide this notification, specified that in case of deposits under the Capital Gains Accounts Scheme, 1988 where the depositor has deceased:

(i) TDS on the interest income accrued for and upto the period of death of the depositor is required to be deducted and reported against PAN of the depositor, and

(ii) TDS on the interest income accrued for the period after death of the depositor is required to be deducted and reported against PAN of the legal heir,

unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

Guidelines for waiver of interest charged under section 201(1A) of the Income-tax Act, 1961 – [Circular No. 11/2017, dated 24.03.2017]

In exercise of the powers conferred under section 119(2)(a), the CBDT has directed that the Chief Commissioner of Income-tax and Director General of Income-tax may reduce or waive interest charged under section 201(1A)(i) in the classes of cases specified below for the period and to the extent the Chief Commissioner of Income-tax/Director General of Income-tax may deem fit. However, no reduction or waiver of such interest shall be ordered unless the principal demand under sections 200A, 201(1) or 234E, as the case may be, stands fully paid or satisfactory arrangements for payment of the principal demand under these sections have been made. The Chief Commissioner of Income-tax or Director General of Income-tax may also impose any other condition as deemed fit for the said reduction or waiver of interest.

The class of cases in which the reduction or waiver of interest under section 201(1A)(i) can be considered, are as follows:

(i) Where during the course of proceedings for search and seizure under section 132, or otherwise, the books of account and other documents necessary for making deduction under Chapter XVIIB of the Act were seized and the assessee was not able to, within the time specified, deduct tax at source from any sum credited to any account (whether called "suspense account" or by any other name) in his books of account.

(ii) Where any sum paid or payable was not liable for deduction of tax at source in the case of a deductor on the basis of any order passed by the jurisdictional High Court, and as a result, he did not deduct tax at source in relation to such sum, and subsequently, in consequence of any retrospective amendment of law or a decision of the Supreme Court of India or a decision of a Larger Bench of the jurisdictional High Court (which was not challenged before the Supreme Court and has become final) in any proceedings, as the case may be, tax was held to be deductible or the tax deducted by the deductor during such financial year was found to be less than the tax deductible on such sums paid or payable.

(iii) Where the default under section 201 relates to non-deduction or a lower deduction of tax under section 195 in respect of a payment made to a non-resident (including a foreign company) being a resident of a country or specified territory outside India with whom India has entered into an agreement referred to in section 90 or 90A of the Act, and where —

(a) a dispute regarding the tax payable in India in respect of the said payment had been referred to the Competent Authority in India mentioned in Rule 44H of the Income-tax Rules, 1962 under the said agreement under section 90 or 90A of the Act;

(b) such reference had been received by the Competent Authority in India within a period of two years of the date on which the notice of demand determining the tax payable was received by the person in default under section 201;

(c) the dispute has been settled by way of a resolution arrived at under the Mutual Agreement Procedure (MAP) provided in the said agreement; and

(d) the person in default under section 201 has given his acceptance to the resolution and has withdrawn his appeal(s) pending on the issue, within the meaning of Rule 44H(4) of the Income-tax Rules, within a period of one month of the date on which the resolution is communicated to him.

Even if the interest under section 201(1A)(i) has already been paid by the deductor, the same can be considered for waiver, subject to the conditions above and a refund may be given to the deductor, if waiver is ordered.

The Chief Commissioner of Income-tax or Director General of Income-tax examining an application for waiver of interest under this order shall pass a speaking order after providing adequate opportunity of being heard to the applicant.

The CBDT reserves the power to examine any grievance arising out of an order passed or not passed by Chief Commissioner of Income-tax or Director General of Income-tax, as the case may be, and issue suitable directions to these authorities for proper implementation of this order. However, no review of or appeal against the orders passed on merits by such authorities would be entertained by the CBDT.

No requirement to deduct tax at source under section 194-I on remittance of Passenger Service Fees (PSF) by an Airline to an Airport Operator [Circular No. 21/2017, dated 12.06.2017]

Section 194-I requires deduction of tax at source at specified percentage on any income payable to a resident by way of rent. *Explanation* to this section defines the term "rent" as any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of any (a) land; or (b) building; or (c) land appurtenant to a building; or (d) machinery; (e) plant; (f) equipment (g) furniture; or (h) fitting, whether or not any or all of them are owned by the payee.

On the issue of whether payment of PSF by an airline to an Airport Operator qualifies as rent to attract TDS under section 194-I, the Bombay High Court relied on the Apex Court ruling in *Japan Airlines and Singapore Airlines* case, wherein it was observed that the primary requirement for any payment to qualify as rent is that the payment must be for the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I. Accordingly, the Bombay High Court declined to admit the ground relating to applicability of the provisions of section 194-I on PSF charges holding that no substantial question of law arises.

The CBDT, accepting the view of the Bombay High Court, has clarified that the provisions of section 194-I shall **not** be applicable on payment of PSF by an airline to Airport Operator.

Clarification regarding TDS on Goods and Services Tax (GST) component comprised in payments made to residents [Circular No. 23/2017 dated 19.07.2017]

The CBDT had, vide Circular No. 1/2014 dated 13.01.2014, clarified that wherever in terms of the agreement or contract between the payer and the payee, the service tax component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such service tax component.

In order to harmonize the same treatment with the new system for taxation of services under the GST regime w.e.f. 01.07.2017, the CBDT has, vide this circular, clarified that wherever in terms of the agreement or contract between the payer and the payee, the component of 'GST on services' comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such 'GST on services' component.

GST shall include Integrated Goods and Services Tax, Central Goods and Services Tax, State Goods and Services Tax and Union Territory Goods and Services Tax.

Further, for the purposes of this Circular, any reference to "service tax" in an existing agreement or contract which was entered into prior to 01.07.2017 shall be treated as "GST on services" with respect to the period from 01.07.2017 onward till the expiry of such agreement or contract.

CHAPTER 17: ASSESSMENT PROCEDURE

Scope of qualifications for e-Return Intermediary extended to include Company Secretaries, Cost Accountants and Tax Return Preparer [Notification No 66/2016, dated 09.08.2016]

Section 139(1B) provides for an alternative method to furnish return of income. Vide Notification No 210/2007, dated 27.07.2007, an Electronic Furnishing of Return of Income Scheme, 2007 was notified for the said purpose. The scheme, *inter alia* provides that an eligible person may, at his option, furnish his return of income which he is required to furnish under various provisions of the Act, to an e-Return Intermediary who shall digitize the data of such return and transmit the same electronically to a server designated for this purpose by the e-Return Administrator, on or before the due date.

Para 5 of the said Notification lays down the qualifications of an e-Return Intermediary. A firm of Chartered Accountants or Advocates, which has been allotted a Permanent Account Number, as well as a Chartered Accountant or an Advocate who has been allotted a Permanent Account Number, *inter alia,* qualified to be an e-Return intermediary.

Vide this Notification, a firm of Company Secretaries or Cost Accountants, if the firm has been allotted PAN as well as a Company Secretary or a Cost Accountant or Tax Return Preparer, who has been allotted a Permanent Account Number, would also qualify to be an e-Return intermediary.

Persons who are not required to quote Aadhar Number or Enrolment ID in application form for allotment of PAN and in return of income [Notification No. 37/2017 dated 11.05.2017]

Section 139AA requires every person who is eligible to obtain Aadhar Number to mandatorily quote Aadhar Number or Enrolment ID of Aadhar application form, on or after 1st July, 2017 in the application form for allotment of PAN and in the return of income. However, this provision shall not applicable to such person or class or classes of persons or any State or part of any State as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification effective from 01.07.2017, notified that the provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.

CHAPTER 18: APPEALS AND REVISIONS

Notification No. SO 1696(E) [F.No.A.-50050/9/2016-Ad1C(CESTAT) Pt. I], dated 26.05.2017

Part XIV of Chapter VI to the Finance Act, 2017 contains amendments to certain Acts to provide for merger of tribunals and other authorities and conditions of service of chairpersons, members, etc. Section 184 of the Finance Act, 2017 lays down the qualifications, appointment, term and conditions of service, salary and allowances, etc., of Chairperson, Vice Chairperson and Members, etc., of the Tribunal, Appellate Tribunal and other Authorities.

Section 252A has been inserted in the Income-tax Act, 1961 to provide that the qualifications, appointment, term of office, salaries and allowances, resignation, removal and the other terms and conditions of service of the President, Vice-President and other Members of the Appellate Tribunal appointed after the commencement of Part XIV of Chapter VI of the Finance Act, 2017 would be governed by the provisions of section 184 of that Finance Act, 2017.

However, the President, Vice-President and Member appointed before the commencement of Part XIV of Chapter VI of the Finance Act, 2017, shall continue to be governed by the provisions of this Act i.e., section 252 and the rules made thereunder as if the provisions of section 184 of the Finance Act, 2017 had not come into force.

Section 156 of the Finance Act, 2017 provides the provisions of Part XIV of Chapter VI of the Finance Act, 2017 shall come into force on such date as the Central Government may, by notification in the Official Gazette appoint. Accordingly, the Central Government has, vide this notification, appointed 26.05.2017 as the date on which the provisions of the Part XIV of Chapter VI of the Finance Act, 2017 shall come into force.

CHAPTER 23: MISCELLANEOUS PROVISIONS

Clarifications in respect of section 269ST [Circular No. 22/2017, Dated 03.07.2017]

With a view to promote digital economy and create a disincentive against cash economy, new section 269ST has been inserted in the Income-tax Act, 1961 vide Finance Act, 2017. The said section *inter-alia* prohibits receipt of an amount of two lakh rupees or more by a person, in the circumstances specified therein, through modes other than by way of an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account. Penal provisions have also been introduced by way of a new section 271DA, which provides that if a person receives any amount in contravention to the provisions of section 269ST, it shall be liable to pay penalty of a sum equal to the amount of such receipt.

Subsequently, representations were received from non-banking financial companies (NBFCs) and housing finance companies (HFCs) as to whether the provisions of section 269ST shall apply to one instalment of loan repayment or the whole amount of such repayment.

Accordingly, the CBDT has, vide this circular, clarified that in respect of receipt, in the nature of repayment of loan, by NBFCs or HFCs, the receipt of one instalment of loan repayment in respect of a loan shall constitute a 'single transaction' as specified in section 269ST(b) and all the instalments paid for a loan shall not be aggregated for the purposes of determining applicability of the provisions section 269ST.

MODULE 4 OF STUDY MATERIAL

CHAPTER 2 : DOUBLE TAXATION RELIEF

Procedure for filing Statement of income from a country or specified territory outside India and Foreign Tax Credit [Notification No. 9/2017, dated 19.09.2017]

An assessee, being a resident shall be allowed a credit for the amount of any foreign tax paid by him in a country or specified territory outside India, by way of deduction or otherwise, in the year in which the income corresponding to such tax has been offered to tax or assessed to tax in India, in the manner and to the extent as specified in Rule 128 of the Income-tax Rules, 1962.

As per rule 128(9), the statement in Form No. 67 referred to in Rule 128(8)(i) and the certificate or the statement referred to in rule 128(8)(ii) has to be furnished on or before the due date specified for furnishing the return of income under section 139(1), in the manner specified for furnishing such return of income.

Accordingly, the Principal Director General of Income-tax (Systems), has, in exercise of the powers delegated by the CBDT, vide this notification, laid down the following procedures in this regard:

(i) **Online filing of Form 67:** All assessees who are required to file return of income electronically under section 139(1) as per Rule 12(3), are required to prepare and submit Form 67 online along with the return of income, if credit for the amount of any foreign tax paid by the assessee in a country or specified territory outside India, by way of deduction or otherwise, in the year in which the income corresponding to such tax has been offered to tax or assessed to tax in India.

(ii) **Preparation and Submission of Form 67:** Form 67 shall be available to all assessees when they login into the e-filing portal using their valid credentials. A link for filing the Form has been provided under "e-File → Prepare and Submit Online Forms (Other than ITR)". Select Form 67 and assessment year from the drop down. The completed Form 67 can be submitted by clicking on "Submit" button. Digital Signature Certificate or Electronic Verification Code is mandatory to submit Form 67.

(iii) **Submission of Form 67** shall precede filing of return of income.

CHAPTER 3 : TRANSFER PRICING & OTHER ANTI-AVOIDANCE MEASURES

Rules for maintaining information and documents and furnishing report in respect of international group in line with BEPS Action Plan - Country-by-Country reporting and of Master File prescribed [Notification No. 92/2017, dated 31.10.2017]

Section 286 was inserted to implement the recommendations of 2015 Final Report on Action 13, titled "Transfer Pricing Documentation and Country-by-Country (CbC) Reporting", identified under the OECD Base Erosion and Profit Shifting (BEPS) Project, to provide for a specific reporting regime in respect of CbC reporting and also the master file in the Income-tax Act, 1961.

Section 286 provides that every constituent entity resident in India, shall, if it is constituent of an international group, the parent entity of which is not resident in India, notify the prescribed income-tax authority, on or before the prescribed date, in the form and manner, as may be prescribed,

- whether, it is the alternate reporting entity of the international group or
- the details of the parent entity or the alternate reporting entity of the international group and the country or territory of which the said entities are resident.

Every parent entity or the alternate reporting entity, resident in India, shall, for every reporting accounting year, furnish a report, in respect of the international group of which it is a constituent, on or before the due date specified under section 139(1), in the form and manner, as may be prescribed.

The proviso to section 92D requires a person, being a constituent entity of an international group, to also keep and maintain such information and document in respect of an international group as may be prescribed. Further, section 92D(4) requires such person to furnish such information and documents to the authority prescribed under section 286(1) in the prescribed manner on or before the prescribed date.

Accordingly, the CBDT has, vide this notification, prescribed the following rules for maintaining and furnishing CbC report and Master File by a constituent or parent entity of an International group:

<table>
<tr><th colspan="2">I. <u>Information and documents to be kept and maintained [Rule 10DA]</u></th></tr>
<tr><th>Rule</th><th>Particulars</th></tr>
<tr><td>10DA(1)</td><td><u>Persons required to keep and maintain the information and documents:</u>
Every person, being a constituent entity of an international group shall -
(i) if the consolidated group revenue of the international group, of which such person is a constituent entity, as reflected in the consolidated financial statement of the international group for the accounting year, exceeds ₹ 500 crore; and
(ii) the aggregate value of international transactions -
(A) during the accounting year, as per the books of accounts, exceeds ₹ 50 crore, or
(B) in respect of purchase, sale, transfer, lease or use of intangible property during the accounting year, as per the books of accounts, exceeds ₹ 10 crore.
Note – The rate of exchange for the calculation of the value in rupees of the consolidated group revenue in foreign currency shall be the telegraphic</td></tr>
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<tr><td></td><td>transfer buying rate (TTBR) of such currency on the last day of the accounting year. [Rule 10DA(8)]

Part A of Form No. 3CEAA (Master File), however, shall be furnished by every person, being a constituent entity of an international group, whether or not the above conditions are satisfied [Rule 10DA(3)].

Part B of Form No.3CEAA has to be furnished by a person, being a constituent entity of an international group, in those cases where the above conditions are satisfied.</td></tr>
<tr><td></td><td><u>Information and documents required to be kept and maintained:</u>

The constituent entity shall keep and maintain the following information and documents of the international group, namely:-

(a) a list of all entities of the international group along with their addresses;

(b) a chart depicting the legal status of the constituent entity and ownership structure of the entire international group;

(c) a description of the business of international group during the accounting year including,-

(I) the nature of the business or businesses;

(II) the important drivers of profits of such business or businesses;

(III) a description of the supply chain for the five largest products or services of the international group in terms of revenue and any other products including services amounting to more than five per cent. of consolidated group revenue;

(IV) a list and brief description of important service arrangements made among members of the international group, other than those for research and development services;

(V) a description of the capabilities of the main service providers within the international group;

(VI) details about the transfer pricing policies for allocating service costs and determining prices to be paid for intra-group services;

(VII) a list and description of the major geographical markets for the products and services offered by the international group;

(VIII) a description of the functions performed, assets employed and risks assumed by the constituent entities of the international group that contribute at least ten per cent. of the revenues or assets or profits of such group; and

(IX) a description of the important business restructuring transactions, acquisitions and divestments;

(d) a description of the overall strategy of the international group for</td></tr>
</table>

	the development, ownership and exploitation of intangible property, including location of principal research and development facilities and their management; (e) a **list of all entities** of the international group **engaged** in **development** and management of **intangible property** along with their addresses; (f) a list of all the important intangible property or groups of intangible property owned by the international group along with the names and addresses of the group entities that legally own such intangible property; (g) a list and brief description of **important agreements** among members of the international group related to intangible property, including cost contribution arrangements, principal research service agreements and license agreements; (h) a detailed description of the **transfer pricing policies** of the international group related to research and development and intangible property; (i) a description of **important transfers of interest** in intangible property, if any, among entities of the international group, including the name and address of the selling and buying entities and the compensation paid for such transfers; (j) a detailed description of the financing arrangements of the international group, including the names and addresses of the top ten unrelated lenders; (k) a list of group entities that provide central financing functions, including their place of operation and of effective management; (l) a detailed description of the transfer pricing policies of the international group related to financing arrangements among group entities; (m) a copy of the annual consolidated financial statement of the international group; and (n) a list and brief description of the existing unilateral advance pricing agreements and other tax rulings in respect of the international group for allocation of income among countries.
10DA(2)	**Due date for furnishing report:** The report of the information shall be furnished in Form No. 3CEAA and it shall be furnished on or before the due date for furnishing the return of income specified under section 139(1). For the accounting year 2016-17, such report may, however, be furnished at any time on or before the 31.3.2018.

10DA(4)/(5)	**<u>Furnishing of report in case of more than one constituent entity:</u>** Where there are more than one constituent entities resident in India of an international group, then the report or information, as the case may be, may be furnished by that constituent entity which has been designated by the international group to furnish the said report or information, as the case may be, and the same has been intimated by the designated constituent entity in Form 3CEAB. Such intimation shall be made at least 30 days before the due date of filing the report as specified in Rule 10DA(2).
10DA(7)	**<u>Period for which such information and document to be kept or maintained:</u>** The information and documents shall be kept and maintained for a period of eight years from the end of the relevant assessment year.
II. Furnishing of Report in respect of an International Group [Rule 10DB]	
Rule	**Provision**
10DB(1)	**<u>Intimation in prescribed from:</u>** For the purposes of section 286(1), every constituent entity resident in India, shall, if its parent entity is not resident in India, intimate the DGIT (Risk Assessment) in Form No. 3CEAC, the following, namely - (a) whether it is the alternate reporting entity of the international group; or (b) the details of the parent entity or the alternate reporting entity, as the case may be, of the international group and the country or territory of which the said entities are residents.
10DB(2)	**<u>Due date for the Intimation:</u>** Every intimation shall be made **at least two months prior to the due date** for furnishing of report i.e., on or before the due date for furnishing return of income as specified under section 139(1).
10DB(3)/ (4)/(5)	**<u>Entities which are required to furnish report in Form No. 3CEAD:</u>** Every parent entity or the alternate reporting entity, as the case may be, resident in India, shall, for every reporting accounting year, furnish the report to the DGIT (Risk Assessment) in Form No.3CEAD **(Country by Country Reporting)**. A constituent entity of an international group, resident in India, other than the parent entity or the alternate reporting entity, has to furnish the report in Form No.3CEAD if the parent entity is resident of a country or territory with which India does not have an agreement providing for exchange of the report or there has been a systemic failure of the country or territory and the said failure has been intimated by the prescribed authority to such

	constituent entity. If there are more than one constituent entities resident in India of an international group, other than the parent entity or the alternate reporting entity, then the report in Form No.3CEAD may be furnished by that entity which has been designated by the international group to furnish the said report and the same has been intimated to the DGIT (Risk Assessment) in Form No.3CEAE.
10DB(6)	**Non-applicability of provisions of section 286** The provisions of section 286 shall not apply in respect of an international group for an accounting year, if the total consolidated group revenue, as reflected in the consolidated financial statement for the accounting year preceding such accounting year **does not exceed ₹ 5,500 crore**. ***Note -*** *Where the total consolidated group revenue of the international group, as reflected in the consolidated financial statement, is in foreign currency, the rate of exchange for the calculation of the value in rupees of such total consolidated group revue shall be the telegraphic transfer buying rate (TTBR) of such currency on the last day of the accounting year preceding the accounting year. [Rule 10DB(7)]*

SECTION B: QUESTIONS AND ANSWERS

QUESTIONS

1. Mr. Rajiv is a retail trader and his total income for the last few years ranged between ₹ 8 lakh to ₹ 10 lakh. He celebrated his 25th wedding anniversary on a large scale on 2nd December, 2017 by hosting a cruise party in the luxury cruise liner "Ocean Princess", for which he had spent ₹ 30 lakh. The Assessing Officer, in the course of scrutiny assessment of Mr. Rajiv, asked him to explain the source of such expenditure. The explanation offered by Mr. Rajiv that the same was out of his savings for the last few years, was not found satisfactory by the Assessing Officer, since a couple of years ago, he had spent to tune of ₹ 60 lakh on the grand wedding celebrations of his daughter at Vijayaseshmahal in Chennai. You are required to examine the tax consequences.

2. Examine, in the context of provisions of the Income-tax Act, 1961, the taxability or otherwise of the income/receipt in each of the following cases for the A.Y. 2018-19:

   (i) Income of ₹ 75,000 derived by a nursery from the sale of seedlings grown without carrying out all the basic operations on land.

   (ii) Ms. Reema, born and brought up in the State of Sikkim, has a net profit of ₹ 4,28,000 from the business located in Sikkim and interest of ₹ 32,000 on the securities issued by the Central Government.

(iii) Amount of ₹ 10 lakh transferred to the NPS Account of Mr. Sriram, an employee of Gamma Ltd., under Atal Pension Yojana, from an approved superannuation fund.

(iv) Receipt by Smt. Vidya, widow of Mr. Sharma (who was an employee of M/s. Phi Ltd.), on 25.10.2017 of ₹ 7.40 lakhs, being amount standing to the credit of Mr. Sharma's NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Sharma in the earlier previous years. Such amount was received by her as a nominee on closure of the account.

(v) Amount of ₹ 1,20,000, being 10% of salary of Mr. Ganesh, contributed by his employer Alpha Ltd. to an approved superannuation fund.

3. A partnership firm consisting of three working partners A, B and C is engaged in the business of manufacturing and selling stationery.

Turnover of the business for the year ended 31st March, 2018 amounts to ₹ 190 lakh. Bad debts written off in the books are ₹ 80,000. Interest at 12% is provided to partner B on his capital of ₹ 10 lakh as authorized by the partnership deed.

The firm had business loss of ₹ 75,000 and unabsorbed depreciation of ₹ 1,20,000 carried forward from Assessment Year 2017-18. The firm did not pay tax under presumptive tax system in assessment year 2017-18. The firm opts for presumptive taxation under section 44AD for Assessment Year 2018-19. Assume that whole of the amount of turnover has been received by way of account payee cheque during the P.Y. 2017-18.

(i) Compute the income of the firm chargeable under the head "Profits and gains of business or profession."

(ii) What would be the liability for interest under sections 234B and 234C, if the firm has not paid any advance tax? Assume that no TDS/TCS to its credit.

4. Delta Limited is engaged in growing and manufacturing rubber in India. It commenced its operations from 1st April, 2017. It acquired plant and machinery (second hand), factory building and furniture at a cost of ₹ 62 lakhs, ₹ 37 lakhs and ₹ 8 lakhs, respectively, in the P.Y. 2017-18 by way of ECS through bank account. Assuming that all the assets were put to use for more than 180 days during the P.Y. 2017-18, you are required to compute the written down value of each block as on 1st April, 2018.

5. Ms. Poorna purchased a residential house from her friend Ms. Leena at ₹ 20 lakhs in the city of Coimbatore on 17th December, 2017. The value determined by the Stamp Valuation Authority for stamp duty purpose amounted to ₹ 28 lakhs. Ms. Leena had purchased the house on 28th December, 2015 at a cost of ₹ 5 lakhs. Ms. Poorna sold the house for ₹ 30 lakhs on 26th February, 2018.

Determine the effect of the above transactions on the assessments of Ms. Poorna and Ms. Leena for the A.Y. 2018-19, assuming that value for stamp duty purpose in case of the second sale was not more than the sale consideration.

6. (a) Mr. Sridhar gifted amount of ₹ 8,00,000 to his brother's wife, Ms. Lakshmi, which was used by her for the purchase of a house and simultaneously, on the same day, his brother Mr. Vishnu gifted shares owned by him in a foreign company worth ₹ 10,00,000 to Harsh, Mr. Sridhar's minor son. Examine the impact of such transfers in the hands of Mr. Sridhar and Mr. Vishnu.

   (b) Mr. Kumar held 18% equity shares in PQR (P) Ltd. He gifted all the shares held by him in PQR (P) Ltd., to his wife Sowmya on 17.7.2017. The transfer was made without adequate consideration. On 18.9.2017, Sowmya obtained a loan of ₹ 2 lakh from PQR (P) Ltd., when the company's accumulated profit was ₹ 1,50,000. Examine the tax implications of the above transactions.

7. A private limited company (not being an eligible start up referred to in section 80-IAC) has share capital in the form of equity share capital. The shares were held up till 31st March, 2016 by four members Akash, Bala, Chris and Dinesh equally. The company made losses/profits for the past three assessment years as follows:

Assessment Year	Business Loss ₹	Unabsorbed Depreciation ₹	Total ₹
2014-15	Nil	16,00,000	16,00,000
2015-16	Nil	12,00,000	12,00,000
2016-17	10,00,000	7,00,000	17,00,000
Total	10,00,000	35,00,000	45,00,000

The above figures have been accepted by the tax department.

During the previous year ended 31.3.2017, Akash sold his shares to Ganesh and during the previous year ended 31.3.2018, Bala sold his shares to Rajesh. The profits for the P.Y. 2016-17 and P.Y.2017-18 are as follows:

31.3.2017 ₹ 20,00,000 (before charging depreciation of ₹ 8,00,000)

31.3.2018 ₹ 50,00,000 (before charging depreciation of ₹ 10,00,000)

Compute taxable income for A.Y.2018-19. Workings must form part of your answer.

8. With brief reasons, answer the following in terms of Chapter VI-A of the Income-tax Act, 1961:

   (i) Mr. Harish, a resident Indian, deposited ₹ 90,000 with Life Insurance Corporation for the maintenance of his sister who suffers from disability of 80%. She is wholly dependent on him. How much amount is deductible from Gross Total Income?

   (ii) Mr. Rajesh, a resident Indian, has gross total income of ₹ 5,40,000 for A.Y. 2018-19. He has given the following donations:

   National Children's Fund ₹ 50,000 - by cheque

Indira Gandhi Memorial Trust ₹ 40,000 - by cheque

Clean Ganga Fund ₹ 30,000 - by cash

Swachh Bharat Kosh ₹ 60,000 - equally by cash and cheque.

Compute the amount deductible under section 80G.

(iii) Mr. Vishal, a resident, who is a computer hardware engineer, co-authored a book on advanced computer programming alongwith his friend. He received ₹ 7,00,000 as lump sum royalty in December, 2017. How much of royalty is deductible?

9. Epsilon Ltd. is engaged in the business of manufacturing fertilizers since 1st April 2009. Its statement of profit and loss shows a net profit of ₹ 350 lakhs for the year ended 31-03-2018, after debiting and crediting the following items:

- Depreciation provided in accounts as per straight line basis ₹ 50 lakhs.

  Note: Normal depreciation allowable as per the Income-tax Rules, 1962 is ₹ 62 lakhs.

- The company has made cash payments for purchases and expenditure as below:

  On 05-08-2017 ₹ 8 lakhs (Due to strike by bank staff)

  On 17-08-2017 ₹ 5 lakhs (Due to cash demanded by the supplier)

  Cash payments made to transport operator for hiring of lorry are as follows:

  07-05-2017 ₹ 40,000; 08-01-2018 ₹ 35,000; 02-03-2018 ₹ 52,000.

- ₹ 8 lakhs contribution to a National Laboratory approved under section 35(2AA).

- GST of ₹ 2.10 lakhs, pertaining to P.Y.2017-18, was paid on 5-12-2018.

- The company has also purchased goods of ₹ 63 lakhs from M/s. Gamma Ltd. in which directors have substantial interest. The market value of the goods is ₹ 58 lakhs.

- The company has incurred legal expenses for the following:

  Issue of bonus shares ₹ 5 lakhs

  Issue of rights shares ₹ 4 lakhs

- Donation paid to a registered political party by way of cheque ₹ 17 lakhs

Compute the total income and tax liability of the company for the assessment year 2018-19 by integrating, analysing and applying the relevant provisions of the income-tax law and decided case laws. Give brief reasons for treatment of each item. Ignore MAT provisions.

Note *– Turnover of Epsilon Ltd. for P.Y. 2015-16 is ₹ 52 crore.*

10. M/s. Omega & Co., a partnership firm in India, is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified

Special Economic Zone (SEZ) in Noida (commenced operations from 01.04.2007). The particulars relating to previous year 2017-18 furnished by the assessee are as follows:

Total Turnover: SEZ unit ₹ 180 lakhs and the other unit ₹ 120 lakhs

Export Turnover: SEZ unit ₹ 120 lakhs and the other unit ₹ 80 lakhs

Profit: SEZ unit ₹ 60 lakhs and the other unit ₹ 30 lakhs.

Amount debited to Statement of Profit and Loss and credited to Special Economic Zone Re-Investment Reserve Account ₹16 lakhs.

Considering that the firm has no other income during the year, compute the tax payable by the firm for the A.Y.2018-19 by integrating, analysing and applying the relevant provisions of income-tax law.

11. Examine the correctness or otherwise of the claims made by the following charitable trusts, registered under section 12AA, while computing income for the P.Y.2017-18:

(a) Kamala charitable trust, having its main object as medical relief, earned the following income during the P.Y.2017-18:

	Particulars	**₹ in lakh**
(i)	Dividend income	0.50
(ii)	Income from mutual funds specified under section 10(23D)	0.85
(iii)	Agricultural income	3.25

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

(b) Gandhi charitable trust, having its main object as promoting education in rural areas, purchased computers and laptops for ₹ 15 lakh in March, 2017 for the purposes of the trust and claimed the same as application of income in the P.Y.2016-17. It also claims depreciation @ 40% on such computers and laptops for P.Y.2017-18, while computing income for the purpose of application for that year.

12. Examine whether the following acts can be considered as (i) Tax planning; or (ii) Tax management; or (iii) Tax evasion. Give brief reasons for your answer.

(i) Miss Aparna deposits ₹ 1,50,000 in PPF account so as to reduce her total income from ₹ 6,40,000 to ₹ 4,90,000, so as to fall in the 5% total income slab.

(ii) Theta Ltd. maintains register of tax deduction at source effected by it to enable timely compliance.

(iii) A company installed an air-conditioner costing ₹ 60,000 at the residence of a director as per terms of his appointment but treats it as fitted in quality control section in the factory. This is with the objective of treating it as plant for the purpose of computing depreciation.

13. Sigma Consulting (P) Ltd., an Indian company established in the year 2005, reports total income of ₹ 15 lakh for the previous year ended 31st March, 2018. Tax deducted at source by different payers amounted to ₹ 1,35,600 and tax paid in foreign country on a doubly taxed income amounted to ₹ 22,000 for which the company is entitled to relief under section 90 as per the double taxation avoidance agreement.

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

Date of payment	Advance tax paid (₹)
14-06-2017	38,000
13-09-2017	73,000
14-12-2017	92,000
15-03-2018	77,000

    The company filed its return of income for the A.Y. 2018-19 on 22nd October, 2018.

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

    Note – *Turnover of Sigma Consulting (P) Ltd. for P.Y. 2015-16 is ₹ 55 crore.*

14. M/s Cool Sip Limited entered into an agreement for the warehousing of its products with Topstore Warehousing and deducted tax at source as per provisions of section 194C out of warehousing charges paid during the year ended on 31.03.2018. The Assessing Officer, while completing the assessment for A.Y. 2017-18 of Cool Sip Limited in March 2018, 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. Cool Sip Ltd.

15. An Assessing Officer entered a hotel run by a person, in respect of whom he exercises jurisdiction, at 8.30 p.m. for the purpose of collecting information, which may be useful for the purposes of the Act. The hotel is kept open for business every day between 8 a.m. and 10 p.m. The hotelier claims that the Assessing Officer could not enter the hotel after sunset. The Assessing Officer wants to take away with him the books of account kept at the hotel.

Examine the validity of the claim made by the hotelier and the proposed action of the Assessing Officer with reference to the provisions of section 133B of the Income-tax Act, 1961.

16. (a) In an order of assessment for the A.Y. 2016-17, 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.

(b) The return for A.Y.2018-19 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 18.4.2019. The Assessing Officer ignoring the revised return so filed framed the order on 27.4.2019. Is the action of Assessing Officer correct? Examine.

17. The assessment of Vindhyas Ltd. was completed under section 143(3) with an addition of ₹ 21 lakhs to the returned income. Vindhyas Ltd. preferred appeal before the Commissioner (Appeals) which is pending now.

In this backdrop, examine the following issues:

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

(ii) Can the Assessing Officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?

(iii) Can the assessee-company seek revision under section 264 in respect of matters other than those preferred in appeal?

(iv) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?

18. Explain the circumstances under which the Assessing Officer can resort to provisional attachment of the property of the assessee. Also, state the period of time for which such attachment can take place.

When can the Assessing Officer revoke provisional assessment of property? Discuss.

19. The details given hereunder for the A.Y.2018-19 relate to two foreign nationals (who are non-residents in India) - Mr. William Jones, an English cricket player and his brother, Mr. Frederick Jones, a singer:

	Particulars	Mr. William Jones	Mr. Frederick Jones
(1)	Participation in cricket tournaments in India	₹ 45 lakhs	

(2)	Winnings from lotteries (net)	₹ 69,100	
(3)	Contribution of an article relating to the sport of cricket in a sports magazine in India	₹ 10,000	
(4)	Performance in a music show in India		₹ 3 lakhs

With reference to the provisions of the Income-tax Act, 1961, you are required to –

(i) Compute their tax liability for the A.Y.2018-19.

(ii) Examine whether the above income are subject to deduction of tax at source.

(iii) Decide whether it is necessary for them to file their return of income for A.Y.2018-19.

20. ABC Inc., a US company has a subsidiary, XYZ Ltd. in India. ABC Inc. sells LEDs to XYZ Ltd. for resale in India. ABC Inc. also sells LEDs to PQR Ltd., another LED reseller in India. It sells 30,000 LEDs to XYZ Ltd. at ₹ 22,000 per unit. The price fixed for PQR Ltd. is ₹ 18,000 per unit. The warranty in case of sale of LEDs by XYZ Ltd. is handled by XYZ Ltd. However, for sale of LEDs by PQR Ltd., ABC Inc. is responsible for the warranty for 6 months. Both ABC Inc. and XYZ Ltd. offer extended warranty at a standard rate of ₹ 2,500 per annum. On these facts, examine how the assessment of XYZ Ltd. is going to be affected.

21. The following are the particulars of income earned by Miss Anuradha, a resident Indian aged 25, for the A.Y. 2018-19:

Particulars	(₹ In lacs)
Income from playing hockey matches in country A	15.00
Tax paid in country A	3.00
Income from playing hockey matches in India	23.00
Deposit in PPF	1.50
Medical Insurance Premium paid for her mother aged 75 years (paid through credit card), who is not dependent on her.	0.40

Compute her total income and tax liability for the A.Y.2018-19. There is no Double Taxation Avoidance Agreement between India and country A.

22. Mr. Vallish, a non-resident, made an application to the Authority for Advance Rulings on 9.9.2017 in relation to a transaction proposed to be undertaken by him. On 1.11.2017, he decides to withdraw the said application. Can he withdraw the application on 1.11.2017? Examine.

SUGGESTED ANSWERS/HINTS

1. If any expenditure is incurred by an assessee in any financial year in respect of which he is not able to offer explanation about the source of such expenditure or the explanation offered by him is not satisfactory in the opinion of the Assessing Officer, then the amount of such unexplained expenditure may be deemed as income of the assessee for such financial year as per section 69C.

Therefore, in this case, since the Assessing Officer is not satisfied with the explanation offered by Mr. Rajiv, the expenditure of ₹ 30 lakh incurred by him in the financial year 2017-18 in hosting a grand cruise party may be deemed as his income for P.Y. 2017-18 as per section 69C.

Further, such unexplained expenditure which is deemed as the income of Mr. Rajiv shall not be allowed as deduction under any head of income.

Where the total income of Mr. Rajiv includes such unexplained expenditure of ₹ 30 lakh, which is deemed as his income under section 69C, such deemed income would be taxed at the rate of 60% as per section 115BBE *plus* surcharge@25% and cess@3%. The effective rate of tax would be 77.25%.

Further, no basic exemption or allowance or expenditure shall be allowed to him under any provision of the Income-tax Act, 1961 in computing such deemed income. No set-off of loss is permissible against such deemed income.

New section 271AAC has been inserted with effect from 1st April, 2017 in the Income-tax Act, 1961 to provide for levy of penalty@10% of tax payable under section 115BBE, in a case where income determined includes any income referred to in sections 68, 69, 69A to 69D for any previous year.

However, no such penalty would be levied on such income to the extent the same has been included by the assessee in return of income furnished under section 139 and tax in accordance with section 115BBE has been paid on or before the end of the relevant previous year.

2. **(i)** *Explanation 3* to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income, whether or not the basic operations were carried out on land. Accordingly, the income of ₹ 75,000 derived by a nursery from the sale of seedlings grown without carrying out all the basic operations on land shall be treated as agricultural income and exempt from tax under section 10(1).

(ii) Section 10(26AAA) exempts the income which accrues or arises to a Sikkimese individual from any source in the State of Sikkim and the income by way of dividend or interest on securities. Therefore, the income of Ms. Reema from a business located in Sikkim and interest income on the securities issued by the Central Government shall not be subject to tax.

(iii) Any payment from an approved superannuation fund made by way of transfer to the account of an employee under a notified pension scheme referred to in section 80CCD and notified by the Central Government is exempt under section 10(13). Since Atal Pension Yojana is a notified pension scheme under section 80CCD, the amount of ₹ 10 lakhs transferred from an approved superannuation fund to the NPS Account of Mr. Sriram, an employee of Gamma Ltd., is exempt under section 10(13).

(iv) The proviso to section 80CCD(3) provides that the amount received by the nominee, *inter alia*, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Accordingly, the amount of ₹ 7.40 lakhs standing to the credit of Mr. Sharma's NPS Account, received by the nominee Smt. Vidya, on closure of the account after death of her husband, would not be deemed to be her income.

(v) The amount of any contribution by the employer to an approved superannuation fund in respect of an employee would be a taxable perquisite under section 17(2), to the extent it exceeds ₹ 1,50,000. In this case, since the contribution by the employer, Alpha Ltd., is only ₹ 1,20,000, no part of the said contribution would be taxable as perquisite under section 17(2) in the hands of the employee, Mr. Ganesh.

3. (i) Computation of income of the firm chargeable under the head "Profits and Gains of business or profession"

Particulars	₹
Presumptive income under section 44AD (6% of ₹ 190 lakh) **[See Note 1]**	11,40,000
Less: Brought forward business loss under section 72 **[See Note 4]**	75,000
Income of the firm chargeable under the head **"Profits and Gains of business or profession"**	**10,65,000**
Tax liability at @ 30.9%	3,29,085

Notes: -

(1) A partnership firm falls within the definition of "eligible assessee" under section 44AD. The threshold limit of turnover for applicability of presumptive taxation scheme under section 44AD is ₹ 200 lakh. In this case, since the turnover of the business of the firm is ₹ 190 lakh, it falls within the definition of "eligible business" and therefore, the firm is eligible to opt for presumptive taxation scheme under section 44AD. 6% of the total turnover would be deemed to be the business income of the firm as whole of the amount of turnover has been received by way of account payee cheque during the P.Y. 2017-18.

(2) As per section 44AD(2), all deductions allowable under sections 30 to 38 shall be deemed to have been allowed in full and no further deduction shall be allowed.

Accordingly, no deduction shall be allowed for bad debts since the same is deductible under section 36(1)(vii). Likewise, unabsorbed depreciation is not deductible since the same is deductible under section 32(2).

(3) Interest on capital and working partner salary are also not deductible while computing the presumptive income of a partnership firm under section 44AD for the assessment year 2018-19.

(4) However, brought forward business loss of previous year 2016-17 can be set-off against current year business income as per section 72.

(ii) Since the partnership firm has opted for computation of income on presumptive basis under section 44AD, it must pay the whole amount of advance tax in one installment on or before 15.03.2018. Further, any amount paid by way of advance tax on or before 31.3.2018 shall also be treated as advance tax paid during the financial year on or before 15th March 2018.

Since the firm has not paid advance tax –

(a) it has to pay interest under section 234C at 1% on ₹ 3,29,085.

(b) it has to pay interest under section 234B @1% per month or part of a month on ₹ 3,29,085 from 1st April, 2018 to the date of determination of total income under section 143(1) and where regular assessment is made, to the date of regular assessment.

4. As per section 32, depreciation to be allowed has to be computed at the prescribed percentage on the written down value of any block of assets.

As per section 43(6), in the case of assets acquired before the previous year, the written down value means the actual cost to the assessee less all depreciation "actually allowed" to him under the Income-tax Act, 1961.

As per Rule 7A of the Income-tax Rules, 1962, only 35% of income from business of growing and manufacturing of rubber in India is deemed to be income liable to tax. The balance 65% would be agricultural income, which is not chargeable to tax.

Explanation 7 to section 43(6) provides that in cases of composite income, for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee is chargeable to tax under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Therefore, even if only 35% of Delta Limited's income from sale of rubber grown and manufactured in India is taxable, full depreciation (and not 35%) should be taken as "actually allowed" for the purpose of computing WDV. Accordingly, the WDV of each block as on 1st April 2018 will be as follows:

Plant & Machinery = ₹ 62 lakhs – ₹ 9.30 lakhs (15% of ₹ 62 lakhs) = ₹ 52.70 lakhs.

Building (Factory) = ₹ 37 lakhs – ₹ 3.70 lacs (10% of ₹ 37 lakhs) = ₹ 33.30 lacs.

Furniture = ₹ 8 lakhs – ₹ 0.80 lakhs (10% of ₹ 8 lakhs) = ₹ 7.20 lakhs.

5. Tax treatment in the hands of the seller, Ms. Leena

Section 50C provides that where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted or assessed or assessable by an authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed or assessable shall be deemed to be the full value of the consideration received or accruing as a result of such transfer for computing capital gain.

In the instant case, Ms. Leena sold a residential house at Coimbatore to her friend Ms. Poorna for ₹ 20 lakhs, whereas the stamp duty value was ₹ 28 lakhs. Therefore, stamp duty value shall be deemed to be the full value of consideration for sale of the property. Therefore, short-term capital gain arising to Ms. Leena for A.Y. 2018-19 will be ₹ 23 lakhs (i.e. ₹ 28 lakhs - ₹ 5 lakhs). The capital gain is short-term since the period of holding of residential house is not more than 24 months.

Tax treatment in the hands of the buyer, Ms. Poorna

The taxability provisions under section 56(2)(x), includes within its scope, any immovable property, being land or building or both, received for inadequate consideration by, *inter alia*, an individual.

As per section 56(2)(x), where any immovable property is received for a consideration which is less than the stamp duty by an amount exceeding ₹ 50,000, the difference between the stamp duty value and the consideration shall be chargeable to tax in the hands of the recipient as the income from other sources. The provisions of section 56(2)(x) would be attracted in this case, since the difference exceeds ₹ 50,000. Therefore, ₹ 8 lakhs, being the difference between the stamp duty value of the property (i.e., ₹ 28 lakhs) and the actual consideration (i.e., ₹ 20 lakhs) would be taxable in the hands of Ms. Poorna, under the head 'Income from Other Sources'.

As per section 49(4), the cost of acquisition of such property for computing capital gains would be the value which has been taken into account for section 56(2)(x). Accordingly, ₹ 28 lacs would be taken as the cost of acquisition of the house. Therefore, on sale of the flat by Ms. Poorna, ₹ 2 lakhs (i.e. ₹ 30 lakhs – ₹ 28 lakhs) would be chargeable to tax as short-term capital gains in her hands for A.Y. 2018-19. Since this is a case covered by section 49(4) and not section 49(1), the period of holding of the previous owner, namely, Ms. Leena, will NOT be considered for determining whether the capital gain in short term or long term.

6. (a) In the given case, Mr. Sridhar is making a gift of ₹ 8,00,000 to his brother's wife for the purchase of a house by her and simultaneously, his brother, Mr. Vishnu, is making a gift of shares worth ₹ 10,00,000 owned by him in a foreign company to the minor son of Mr. Sridhar. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

The Supreme Court has, in *CIT vs. Keshavji Morarji (1967) 66 ITR 142*, held that if two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

Accordingly, the income arising to his brother's wife Ms.Lakshmi from the house property would be included in the total income of his brother, Mr.Vishnu and the dividend income from shares transferred to Mr. Sridhar's minor son would be taxable in the hands of Mr. Sridhar. This is because both Mr. Sridhar and his brother are the indirect transferors of the income yielding assets to their minor child and spouse, respectively, with an intention to reduce their burden of taxation. However, dividend income earned from shares of the value of ₹ 8,00,000 alone will be clubbed in the hands of Mr. Sridhar, since cross transfer is only to the extent of ₹ 8,00,000. Balance dividend income (in respect of shares of the value of ₹ 2,00,000) will be included in the hands of Mr. Sridhar or his spouse, as the case may be, whose total income excluding such income is greater under section 64(1A).

However, since husband's brother and father's brother fall within the definition of "relative" under section 56(2)(x), hence, the sum of money and property, respectively, received from them would be exempt in the hands of the concerned transferee.

(b) Under section 2(22)(e), any payment by a closely-held company by way of loan or advance to its shareholder, being a person who is the beneficial owner of shares, holding not less than 10% of the voting power, is deemed as dividend to the extent to which the company possesses accumulated profits.

Therefore, in order to attract the deeming provisions under section 2(22)(e), the recipient of loan should be a registered shareholder as well as the beneficial owner of shares.

Accordingly, in this case, ₹ 1,50,000 (i.e., loan to the extent of accumulated profits of PQR (P) Ltd.) would be deemed as dividend in the hands of Sowmya, who holds 18% equity shares in PQR (P) Ltd., under section 2(22)(e).

Thereafter, the clubbing provisions under section 64(1)(iv) would be attracted, as per which, income as arises, directly or indirectly, from asset transferred to spouse, otherwise than for adequate consideration, would be included in the hands of the transferor.

If the assets so transferred are shares in a company, the loan taken from the company is deemed as dividend income of the shareholder under section 2(22)(e) to the extent to which the company possesses accumulated profits. Thus, on account of this deeming provision, such loan is treated as income arising from the shares. It was so held by the Madras High Court in *CIT v. Vimalan (A.) (1975) 98 ITR 529.*

Accordingly, as per section 64(1)(iv), such income arising in the hands of the shareholder, Sowmya, by virtue of section 2(22)(e) (i.e., deemed dividend of ₹ 1,50,000) would be included in the total income of Mr. Kumar, who had transferred the said shares to Sowmya without consideration.

7. Akash, Bala, Chris and Dinesh are the four shareholders of a private limited company. The shareholding pattern of the company in the three financial years are given below:

As on 31st day of March	Akash	Bala	Chris	Dinesh	Ganesh	Rajesh
	%	%	%	%	%	%
2016	25	25	25	25	-	-
2017	-	25	25	25	25	-
2018	-	-	25	25	25	25

Section 79 provides that, in case of a closely held company not being an eligible start up referred to in section 80-IAC, no loss incurred in the previous year shall be carried forward and set off against the income of the subsequent previous year unless the shares carrying at least 51% of the voting power of the company are beneficially held on the last day of the previous year in which the loss is sought to be set off, by the same shareholders, who beneficially held the shares carrying at least 51% of the voting power on the last day of the previous year in which the loss was incurred.

Since shareholders holding at least 51% of the voting power are the same on 31st March 2016 and 2017, the restriction imposed by section 79 is not applicable for set-off of losses of the P.Y. 2015-16 against income of the P.Y. 2016-17. Thus, the taxable income for the assessment year 2017-18 would be:

Particulars	₹
Business profit	20,00,000
Less: Current year's depreciation	8,00,000
	12,00,000
Less: Brought forward business loss [as per section 72(2)]	10,00,000
Unabsorbed depreciation [section 32(2)]	2,00,000
Taxable income for A.Y. 2017-18	**Nil**

Balance unabsorbed depreciation relating to the earlier assessment years can be carried forward to the next assessment year i.e., A.Y. 2018-19. There is no brought forward business loss and section 79 is not applicable in case of carry forward of unabsorbed depreciation. Section 32 governs the carry forward and set off of depreciation for which the shareholding pattern is not relevant at all. Consequently, the income for A.Y.2018-19 will be determined as under -

Particulars	₹	₹
Business income		50,00,000
Less: Current year's depreciation		10,00,000

		40,00,000
Less: Unabsorbed depreciation:-		
Assessment year 2014-15	14,00,000	
Assessment year 2015-16	12,00,000	
Assessment year 2016-17	7,00,000	33,00,000
Taxable Income for A.Y.2018-19		**7,00,000**

8. Allowability of deduction under Chapter VIA

	Deduction (₹)	Reasons
(i)	1,25,000	As per section 80DD, an assessee, being an individual or HUF, who is resident in India during the previous year, has – - incurred any expenditure for medical treatment (including nursing), training and rehabilitation of a dependent, or - paid or deposited any amount under a scheme framed by LIC or other insurer for the maintenance of a dependent, would be eligible for deduction of ₹ 75,000, in case such dependent is a person with disability. In case such dependent is a person with severe disability, the deduction under this section would be ₹ 1,25,000. Mr. Harish would be eligible for deduction under section 80DD since he has deposited money with LIC for maintenance of his sister (a dependent for the purpose of section 80DD), who suffers from severe disability (80% or more disability) and is wholly dependent on him. A flat deduction of ₹ 1,25,000 would be available to him under section 80DD, irrespective of the amount deposited with LIC.
(ii)	1,00,000	Mr. Rajesh would be eligible for deduction under section 80G in respect of the donations made during the previous year as follows:

Donation to	Amount of donation (₹)	Mode of donation	% eligible for deduction	Amount of deduction (₹)
National Children's Fund	50,000	Cheque	100%	50,000
Indira Gandhi Memorial Trust	40,000	Cheque	50%	20,000

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<tr><td>Clean Ganga Fund</td><td>30,000</td><td>Cash</td><td>100%</td><td>Nil
(Cash donation in excess of ₹ 2,000 would not qualify for deduction)</td></tr>
<tr><td>Swachh Bharat Kosh</td><td>60,000</td><td>₹ 30,000 by cheque
&
₹ 30,000 by cash</td><td>100%</td><td>30,000
(Amount of ₹ 30,000 contributed by cheque qualifies for deduction. ₹ 30,000 contributed by cash will not qualify for deduction u/s 80G)</td></tr>
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<td>(iii)</td>
<td>3,00,000</td>
<td>The entire royalty would be first included in Mr. Vishal's income under the head "Income from other sources".

Thereafter, Mr. Vishal is eligible for deduction from gross total income under section 80QQB, of the whole of the income derived by him on account of any lumpsum consideration in the form of royalty in respect of a book, being a work of literary or scientific nature, or ₹ 3,00,000, whichever is less.

Book on Advanced computer programming would fall within the description of work of literary or scientific nature [Dassault Systems K.K. In Re. (2010) 322 ITR 125 (AAR)].

In this case, the eligible deduction under section 80QQB would be the lower of ₹ 7,00,000, being the amount of lumpsum royalty received by Mr. Vishal or ₹ 3,00,000.

The net effect is that out of ₹ 7,00,000 included in Vishal's income, he can claim deduction of ₹ 3,00,000 under section 80QQB. The balance of ₹ 4,00,000 would form part of his total income.</td>
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9. **Computation of Total Income of Epsilon Ltd. for the A.Y.2018-19**

Particulars	**Amount (₹)**	
Profits and Gains from Business and Profession		
Net profit as per profit and loss account		3,50,00,000
Add: **Items debited but to be considered separately or to be disallowed**		
Depreciation provided on straight line basis **(Note 1)**	50,00,000	
Disallowance u/s 40A(3) for payment exceeding ₹ 10,000 made in cash for purchases and expenditure **(Note 2)**	5,00,000	
Disallowance under section 40A(3) for cash payment exceeding ₹ 35,000 in a day to transport operators for hiring of lorry **(Note 3)**	92,000	
Contribution to a National Laboratory (considered separately for weighted deduction) **(Note 4)**	8,00,000	
GST deposited on 5.12.2018 **(Note 5)**	2,10,000	
Disallowance under section 40A(2) for excess payment to related person **(Note 6)**	5,00,000	
Legal expenses for issue of bonus shares **(Note 7)**	-	
Legal expenses for issue of right shares **(Note 7)**	4,00,000	
Donation to a registered political party **(Note 8)**	17,00,000	92,02,000
		4,42,02,000
Less: **Items credited but to be considered separately or tobe allowed/ Expenditure to be allowed**		
Depreciation allowable under the Income-tax Act, 1961 **(Note 1)**	62,00,000	
Weighted deduction @ 150% in respect of contribution of ₹ 8 lakhs to National Laboratory under section 35(2AA) **(Note 4)**	12,00,000	74,00,000
Gross Total Income		**3,68,02,000**
Less: **Deduction under Chapter VI-A**		
U/s 80GGB [Donation to registered political party] **(Note 8)**		17,00,000
Total Income		**3,51,02,000**

Computation of tax liability of Episilon Ltd. for A.Y.2018-19

Particulars	**₹**
Tax@30% on total income of ₹ 3,51,02,000 [Since turnover of P.Y. 2015-16 > ₹ 50 crore]	1,05,30,600
Add: Surcharge@7% (since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crores)	7,37,142

Tax payable including surcharge	1,12,67,742
Add: Education cess@2% and secondary and higher education cess@1%	3,38,032
Total tax payable	**1,16,05,774**
Tax payable (Rounded off)	**1,16,05,770**

Notes:

(1) Depreciation provided in the accounts on straight line basis (i.e., ₹ 50 lakhs) has to be added back and depreciation calculated as per Income-tax Rules, 1962 (i.e. ₹ 62 lakhs) is allowable as deduction under section 32.

(2) Cash payments exceeding ₹ 10,000 a day attracts disallowance under section 40A(3). However, Rule 6DD provides for certain exceptions, which includes, *inter alia,* payments which are required to be made on a day on which the banks were closed on account of strike. Therefore, cash payment of ₹ 8 lakhs made on the day of strike by bank staff would not attract disallowance under section 40A(3), assuming that the payment was required to be made on that specific date. However, cash payment of ₹ 5 lakhs made on 17-8-2017 due to demand of supplier would attract disallowance under section 40A(3), since the same is not covered under any of the exceptions laid out in Rule 6DD.

(3) In respect of cash payments to transport operators, a higher limit of ₹ 35,000 per day is permissible. Therefore, cash payment of ₹ 35,000 on 8-1-2018 would not attract disallowance under section 40A(3). However, cash payments of ₹ 40,000 and ₹ 52,000 on 7.5.2017 and 2.3.2018, respectively, would attract disallowance under section 40A(3) since the same exceeds ₹ 35,000 per day.

(4) Contribution to a National Laboratory under section 35(2AA) qualifies for weighted deduction@150%. Hence, the contribution of ₹ 8 lakhs is first added back and thereafter, deduction of ₹ 12 lakhs (i.e.,150% of ₹ 8 lakhs) has been provided under section 35(2AA).

(5) GST liability of ₹ 2.10 lakhs would attract disallowance under section 43B, since it was paid only on 5.12.2018 (i.e., after the due date of filing return of income of A.Y.2018-19). It would be allowed in the year of payment (i.e., P.Y.2018-19). Hence, it has to be added back for computing business income.

(6) Gamma Ltd. is a related person under section 40A(2), since the directors of Epsilon Ltd. have substantial interest in Gamma Ltd. Therefore, excess payment of ₹ 5 lakh to Gamma Ltd. for purchase of goods would attract disallowance under section 40A(2).

(7) There is no fresh inflow of funds or increase in capital employed on account of issue of bonus shares and there is only reallocation of the company's fund. Consequently, since there is no increase in the capital base of the company, legal expenses of ₹ 5

lakhs in connection with issue of bonus shares is a revenue expenditure and is hence, allowable as deduction. It has been so held by Apex Court in case of *CIT vs. General Insurance Corpn. (2006) 286 ITR 232.*

However, ₹ 4 lakhs, being legal expenses in relation to issue of rights shares results in expansion of the capital base of the company and is, hence, a capital expenditure. Therefore, the same is not allowable as deduction. It has been so held in *Brooke Bond India Ltd. v. CIT (1997) 225 ITR 798 (SC).*

(8) Donation paid to a political party is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income. However, donation made by a company to a political party is allowable deduction under section 80GGB from gross total income, subject to the condition that payment is made otherwise than by way of cash. Since the donation is made by cheque the same is allowed as deduction under section 80GGB.

10. Computation of total income and tax liability of M/s. Omega & Co., a partnership firm, as per the normal provisions of the Act for A.Y. 2018-19

Particulars		**₹ (in lakhs)**
Business income (before deduction under section 10AA) (₹ 60 lakhs + ₹ 30 lakhs)		90.00
Add: Amount debited to SEZ Re-investment Reserve		16.00
		106.00
Less: Deduction u/s 10AA		
= ₹ 60 lakhs × ₹ 120 lakhs/₹ 180 lakhs = 40 × 50% (being the 11th year)	20.00	
Amount credited to SEZ Re-investment Reserve Account	16.00	
- whichever is less is deductible		**16.00**
Total Income		**90.00**
Tax on total income@30%		27.00
Add: Education cess@2% & SHEC @1%		0.81
Tax liability (as per normal provisions)		**27.81**

Computation of Adjusted total income and Alternate Minimum tax of M/s. Omega & Co., a partnership firm, as per the provisions of section 115JC for A.Y.2018-19

Particulars	**₹ (in lakh)**
Total income as per the normal provisions	90.00
Add: Deduction under section 10AA	16.00
Adjusted total income	106.00
Tax@18.5% of Adjusted Total Income	19.6100

Add: Surcharge @12% as the adjusted total income is > ₹ 1 crore	2.3535
	21.9632
Add: Education cess @2% & SHEC @1%	0.6589
Alternate Minimum Tax as per section 115JC	**22.6221**

Since the tax payable as per the normal provisions of the Act is more than the alternate minimum tax payable, the total income as per normal provisions shall be liable to tax and the tax payable for A.Y. 2018-19 shall be ₹ 27.81 lakhs.

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

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

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

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

Accordingly, in this case, since the cost of computers and laptops (i.e., ₹ 15 lakh) has been claimed and allowed as application of income under section 11 while computing the income of the trust for the P.Y.2016-17, depreciation on computers and laptops will not be allowed for the purpose of determining income for the purposes of application in the P.Y.2017-18.

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

12. **Tax Planning / Tax Management / Tax Evasion**

	Answer	Reason
(i)	Tax planning	Depositing money in PPF and claiming deduction u/s 80C is as per the provisions of income-tax law. Hence, it is a legitimate tax planning measure which enables Ms. Aparna to reduce her tax liability by claiming a deduction permissible under the Income-tax Act, 1961.

(ii)	Tax management	Maintaining register of payments subject to TDS helps in complying with the obligations under the Income-tax Act, 1961. Hence, such maintenance would fall within the meaning of Tax Management.
(iii)	Tax evasion	An air conditioner fitted at the residence of a director as per the terms of his appointment would be a furniture qualifying for depreciation@10%, whereas an air conditioner fitted in a factory would be a plant qualifying for a higher depreciation @15%. The wrong treatment unjustifiably increases the amount of depreciation and consequently, reduces profit and consequent tax liability. Treatment of air-conditioner fitted at the residence of a director as a plant fitted at the factory would tantamount to furnishing of false particulars with an attempt to evade tax.

13. **Interest under section 234A:** Since the return of income has been furnished by Sigma Consulting (P) Ltd. on 22nd October, 2018 i.e., 22 days after the due date for filing return of income (30.9.2018), interest under section 234A will be payable for 1 month @1% on the amount of tax payable on the total income, as reduced by tax reliefs and prepaid taxes.

Particulars	₹
Tax on total income (₹ 15,00,000 x 30.9%) (Since turnover of P.Y. 2015-16 > ₹ 50 crore)	4,63,500
Less: Advance tax paid	2,80,000
Less: Tax deducted at source	1,35,600
Less: Relief of tax allowed u/s 90	22,000
Tax payable on self-assessment	**25,900**
Interest = ₹ 25,900 x 1% = ₹ 259	

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

Computation of assessed tax	₹
Tax on total income (₹ 15,00,000 x 30.9%)	4,63,500
Less: Tax deducted at source	1,35,600
Less: Relief of tax allowed under section 90	22,000
Assessed tax	**3,05,900**
90% of assessed tax = ₹ 3,05,900 x 90% = ₹ 2,75,310	

Since the advance tax paid by Sigma Consulting (P) Ltd. (₹ 2,80,000) is more than 90% of the assessed tax (₹ 2,75,310), it is not liable to pay interest under section 234B.

Interest under section 234C

Particulars	₹
Tax on total income (₹ 15,00,000 x 30.9%)	4,63,500
Less: Tax deducted at source	1,35,600
Less: Relief of tax allowed under section 90	22,000
Tax due on returned income/Total advance tax payable	**3,05,900**

Calculation of interest payable under section 234C:

Date	Advance tax paid till date	Advance tax payable till date	Minimum % of tax due on returned income to be paid till date to avoid interest u/s 234C (c)		Short-fall	Interest
	(₹)	%	%	Amount (₹)	(₹)	(₹)
15.06.2017	38,000	15%	12%	36,708	-	Nil **(See Note below)**
15.09.2017	1,11,000	45%	36%	1,10,124	-	Nil **(See Note below)**
15.12.2017	2,03,000	75%	75%	2,29,425	26,425	26,425 x 1% x 3 months = 793
15.03.2018	2,80,000	100%	100%	3,05,900	25,900	25,900 x 1% = 259
Interest payable under section 234C (Nil + Nil + ₹ 793 + ₹ 259)						**₹ 1,052**

Note: *Since the advance tax paid by Sigma Consulting (P) Ltd. on 14th June, 2017 is more than 12% of the tax due on returned income (i.e., ₹ 3,05,900) and the advance tax paid on 13th September, 2017 is more than 36% of the tax due on returned income, it is not liable to pay any interest under section 234C in respect of these two quarters.*

Fee under section 234F

₹ 5,000 is payable under section 234F by way of fee, since the return was filed after the due date but before 31.12.2018.

14. 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 Cool Sip 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 Topstore Warehousing.

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

15. Section 133B(2) of the Income-tax Act, 1961 empowers an income-tax authority to enter any place of business during the hours at which such place is open for the conduct of business. The hotel is open from 8.00 a.m. to 10.00 p.m. for the conduct of business. The Assessing Officer entered the hotel at 8.30 p.m. which falls within the working hours. The claim made by the hotelier to the effect that the Assessing Officer could not enter the hotel after sunset is not in accordance with law.

Section 133B(3) provides that an income tax authority acting under this section shall, on no account, remove or cause to be removed from the place wherein he has entered, any books of account. In view of this clear prohibition in section 133B(3), the proposed action of the Assessing Officer to take away with him the books of account kept at the hotel is not valid in law.

16. **(a)** 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.

(b) The original return for A.Y.2018-19 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 18.4.2019 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.

17. (i) As per the third proviso to section 147, the Assessing Officer may assess or reassess such income, other than the income involving matters which are the subject matters of any appeal, reference or revision, which is chargeable to tax and has escaped assessment. The doctrine of partial merger would apply in this case.

Therefore, even when an appeal is pending before Commissioner (Appeals), the Assessing Officer can initiate reassessment proceedings in respect of income chargeable to tax which has escaped assessment, provided such income is not the subject matter of the appeal before the Commissioner (Appeals) i.e., such income which has escaped assessment does not form part of the additions of ₹ 21 lakhs to the returned income, which is the subject matter of appeal.

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

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

(iii) As per section 264(4), the Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals). Thus, the concept of total merger would apply in the case of section 264.

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

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

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

18. As per the provisions of section 281B, there can be provisional attachment of property to protect the interest of Revenue in certain cases i.e.-

(i) The proceeding for the assessment of any income or for the assessment or reassessment of any income which has escaped assessment should be pending.

(ii) Such attachment should be necessary for the purpose of protecting the interest of Revenue in the opinion of the Assessing Officer.

(iii) The previous approval of the Principal Chief Commissioner or Chief Commissioner, Principal Commissioner or Commissioner, Principal Director General or Director General or Principal Director or Director has been obtained by the Assessing Officer.

(iv) The Assessing Officer, may, by an order in writing attach provisionally any property belonging to the assessee in the manner provided in the Second Schedule.

Such provisional attachment shall cease to have effect after the expiry of a period of six months from the date of order made under section 281B(1). However, the period can be extended by the Principal Chief Commissioner or Chief Commissioner, Principal Commissioner or Commissioner, Principal Director General or Director General or Principal Director or Director, as the case may be, for the reasons to be recorded in writing for a further period or periods as he thinks fit. The total period of extension in any case cannot exceed 2 years or 60 days after the date of order of assessment or reassessment, whichever is later.

The Assessing Officer shall, by order in writing, revoke provisional attachment of a property made under section 281B(1) in a case where the assessee furnishes a guarantee from a scheduled bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue.

19. (i) Computation of tax liability of Mr. William Jones for the A.Y.2018-19

Particulars	₹	₹
Income taxable u/s 115BBA		
Income from participation in cricket tournaments in India	45,00,000	
Contribution of article in a magazine in India	10,000	
Income taxable u/s 115BB		
Winnings from lotteries [₹ 69,100 / (100 - 30.9%)]	1,00,000	
Total Income	**46,10,000**	
Tax@20% u/s 115BBA on ₹ 45,10,000		9,02,000
Tax@30% u/s 115BB on income of ₹ 1,00,000 by way of winnings from lotteries		30,000
		9,32,000

Add: Education cess@2% and SHEC@1%		27,960
Total tax liability of Mr. William Jones		**9,59,960**

Mr. Frederick Jones is a non-resident entertainer, whose income of ₹ 3 lakh from a music show in India is taxable@20% under section 115BBA. Therefore, his tax liability is ₹ 61,800 (being 20% of ₹ 3 lakh plus education cess@2% and secondary and higher education cess@1%)

(ii) Yes, the above income are subject to deduction of tax at source.

Income referred to in section 115BBA is subject to deduction of tax at source@20% under section 194E. Income referred to in section 115BB (i.e., winnings from lotteries) is subject to deduction of tax at source@30% under section 194B.

Since Mr. William Jones and Mr. Frederick Jones are non-residents, the amount of tax to be deducted calculated at the prescribed rates mentioned above, would be increased by education cess@2% and secondary and higher education cess@1%.

(iii) Section 115BBA provides that if the total income of the non-resident sportsman or non-resident entertainer comprises of only income referred to in that section and tax deductible at source has been fully deducted, it shall not be necessary for him to file his return of income.

In this case, although Mr. William Jones is a non-resident sportsman, he has winnings from lotteries as well. Therefore, he cannot avail the benefit of exemption from filing of return of income as contained in section 115BBA. Hence, he has to file his return of income for A.Y.2018-19.

However, since Mr. Frederick Jones's income comprises of only income referred to in section 115BBA, in respect of which tax is deductible under section 194E, he need not file his return of income for A.Y.2018-19, if tax has been so deducted.

20. ABC Inc., the foreign company and XYZ Ltd., the Indian company are associated enterprises since ABC Inc. is the holding company of XYZ Ltd. ABC Inc. sells LEDs to XYZ Ltd. for resale in India. ABC Inc. also sells identical LEDs to PQR Ltd., which is not an associated enterprise. The price charged by ABC Inc. for a similar product transferred in comparable uncontrolled transaction is, therefore, identifiable. Therefore, Comparable Uncontrolled Price (CUP) method for determining arm's length price can be applied.

While applying CUP method, the price in comparable uncontrolled transaction needs to be adjusted to account for difference, if any, between the international transaction (i.e. transaction between ABC Inc. and XYZ Ltd.) and uncontrolled transaction (i.e. transaction between ABC Inc. and PQR Ltd.) and the price so adjusted shall be the arm's length price for the international transaction.

For sale of LEDs by PQR Ltd., ABC Inc. is responsible for warranty for 6 months. The price charged by ABC Inc. to PQR Ltd. includes the charge for warranty for 6 months. Hence, the arm's length price for LEDs being sold by ABC Inc. to XYZ Ltd. would be:

Particulars	No.	₹
Sale price charged by ABC Inc. to PQR Ltd.		18,000
Less: Cost of warranty included in the price charged to PQR Ltd. (₹ 2,500 x 6 /12)		1,250
Arm's length price		**16,750**
Actual price paid by XYZ Ltd. to ABC Inc.		22,000
Difference per unit		**5,250**
No. of units supplied by ABC Inc. to XYZ Ltd.	30,000	
Addition required to be made in the computation of total income of XYZ Ltd. (₹ 5,250 × 30,000)		15,75,00,000

No deduction under Chapter VI-A would be allowable in respect of the enhanced income of ₹ 15.75 crores.

Note: *It is assumed that XYZ Ltd. has not entered into an advance pricing agreement or opted to be subject to Safe Harbour Rules.*

21. Computation of total income and tax liability of Miss Anuradha for the A.Y. 2018-19

Particulars	₹	₹
Indian Income [Income from playing hockey matches in India]		23,00,000
Foreign Income [Income from playing hockey matches in country A]		15,00,000
Gross Total Income		**38,00,000**
Less: **Deduction under Chapter VI-A**		
Deduction under section 80C		
PPF deposit of ₹ 1,50,000 made during the previous year is within the overall limit of 1.5 lakh. Hence, fully allowable as deduction	1,50,000	
Deduction under section 80D		
Medical insurance premium of ₹ 40,000 paid for her mother aged 75 years. Since her mother is a senior citizen, the deduction is allowable to a maximum of ₹ 30,000 (assuming that her mother is also a resident in India), even though she is not dependent on her. Further, deduction is allowable where payment is made by any mode other than cash. Here payment is made by credit card hence, eligible for deduction.	30,000	1,80,000
Total Income		**36,20,000**

<u>Tax on Total Income</u>			
Income-tax		8,98,500	
Add: Education cess@2%		17,970	
Add: Secondary and higher education cess@1%		<u>8,985</u>	9,25,455
Average rate of tax in India (i.e. ₹ 9,25,455/₹ 36,20,000 × 100)	25.57%		
Average rate of tax in foreign country "A" (i.e. ₹ 3,00,000/₹15,00,000 ×100)	20.00%		
Rebate u/s 91 on ₹ 15 lakh @ 20% (lower of average Indian-tax rate or average foreign tax rate)			<u>3,00,000</u>
Tax payable in India (₹ 9,25,455 – ₹ 3,00,000)			**<u>6,25,455</u>**

Note: Miss Anuradha shall be allowed deduction under section 91, since the following conditions are fulfilled:-

(a) She is a resident in India during the relevant previous year.

(b) The income accrues or arises to her outside India during that previous year and such income is not deemed to accrue or arise in India during the previous year.

(c) The income in question has been subjected to income-tax in the foreign country A in her hands and she has paid tax on such income in the foreign country A.

(d) There is no agreement under section 90 for the relief or avoidance of double taxation between India and country A where the income has accrued or arisen.

22. 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. Vallish 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.

PAPER – 8 : INDIRECT TAX LAWS

QUESTIONS

(1) All questions should be answered on the basis of the position of GST law as amended up to 31.10.2017 and customs law as amended by the Finance Act, 2017 and notifications and circulars issued till 31.10.2017.

(2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. The rates of customs duty are also hypothetical and may not necessarily be the actual rates. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1. 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	₹
A.	Truck sent to own location in Tamil Nadu (i) Value of items contained in the truck - ₹ 3,00,000 (ii) Value of truck - ₹ 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 – ₹ 2,85,000 (ii) Value of stand-alone machine - ₹ 4,00,000 (iii) Value of truck - ₹ 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 - ₹ 1,06,000 (ii) Value of truck - ₹ 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.

2. ABC Ltd., Noida (Uttar Pradesh) is a supplier of machinery used for making bottle caps. The supply of machinery is effected as under:

- The wholesale price of the machinery (excluding all taxes and other expenses) at which it is supplied in the ordinary course of the business to various customers is ₹ 42,00,000. However, the actual price at which the machinery is supplied to an individual customer varies within a range of ± 10% depending upon the terms of contract of supply with the particular customer.

- Apart from the price of the machinery, ABC Ltd. charges from the customer the following incidental expenses:
  - associated handling and loading charges of ₹ 10,000
  - installation and commissioning charges of ₹ 50,000

  The machinery can be dismantled and erected at another site, if required. The above charges are compulsorily levied in every case of supply of machinery.
- Transportation of machinery to the customer's premises is arranged by ABC Ltd. through a third-party service provider [Goods Transport Agency (GTA)]. The customer enters into a separate service contract with the GTA and pays the freight directly to it.
- The company provides one year free warranty for the machinery. However, the company also provides an extended two-year warranty on payment of additional charge of ₹ 3,00,000.
- A cash discount of 2% on the price of the machinery is offered at the time of supply, if the customer agrees to make the payment within 15 days of the receipt of the machinery at his premises. In the event of failure to make the payment within the stipulated time, the company-
  - recovers the discount given; and
  - charges interest @ 1% per month or part of the month on the total amount due from the customer (towards the machinery supplied) from the date of making the supply till the date of payment. However, no interest is charged on the tax dues.
- For every machinery supplied, ABC Ltd. receives a grant of ₹ 2,00,000 from its holding company DEF Ltd.

ABC Ltd. has supplied a machinery to D Pvt. Ltd. on August 1, 20XX at a price of ₹ 40,00,000 (excluding all taxes). D Pvt. Ltd has its corporate office in New Delhi. However, the machinery has been installed at its manufacturing unit located in Gurugram (Haryana). D Pvt. Ltd. has paid the freight directly to the GTA and opted for two year warranty. Discount @ 2% was given to D Pvt. Ltd. as it agreed to make the payment within 15 days. However, D Pvt. Ltd. paid the consideration on 31st October, 20XX.

Assume the rates of taxes to be as under:

Bottle cap making machine		
CGST – 6%	SGST – 6%	IGST – 12%

Service of transportation of goods		
CGST – 2.5%	SGST – 2.5%	IGST – 5%
Other services involved in the above supply		
CGST – 9%	CGST – 9%	CGST – 9%

Calculate the GST payable [CGST & SGST or IGST, as the case may be] on the machinery and support your conclusions with legal provisions in the form of explanatory notes.

Make suitable assumptions, wherever needed.

3. M/s XYZ, a registered supplier, supplies the following goods and services for construction of buildings and complexes -

- excavators for required period at a per hour rate
- manpower for operation of the excavators at a per day rate
- soil-testing and seismic evaluation at a per sample rate.

The excavators are invariably hired out along with operators. Similarly, excavator operators are supplied only when the excavator is hired out.

M/s XYZ receives the following services:

- Annual maintenance services for excavators;
- Health insurance for operators of the excavators;
- Scientific and technical consultancy for soil testing and seismic evaluation.

For a given month, the receipts (exclusive of GST) of M/s XYZ are as follows:

- Hire charges for excavators - ₹ 18,00,000
- Service charges for supply of manpower for operation of the excavator - ₹ 20,000
- Service charges for soil testing and seismic evaluation at three sites - ₹ 2,50,000

The GST paid during the said month on services received by M/s XYZ is as follows:

- Annual maintenance for excavators - ₹ 1,00,000
- Health insurance for excavator operators - ₹ 11,000
- Scientific and technical consultancy for soil testing and seismic evaluation - ₹ 1,00,000

Compute the net GST payable by M/s XYZ for the given month.

Assume the rates of GST to be as under:

Hiring out of excavators – 12%

Supply of manpower services and soil-testing and seismic evaluation services – 18%

Note: - Opening balance of input tax credit of GST is nil.

4. Bansal and Chandiok is a partnership firm of Chartered Accountants in Jaipur (Rajasthan). The firm specialises in bank audits providing services to banks across India. It has an annual turnover of ₹ 110 lakh in the preceding financial year.

   With reference to the provisions of the CGST Act, 2017, examine whether the firm can opt for the composition scheme. Will your answer change, if-

   (a) the turnover of the firm is ₹ 90 lakhs?

   (b) Bansal and Chandiok is not a partnership firm of Chartered Accountants but a partnership firm providing support services to restaurants like booking tables, advertisement etc.?

5. (i) Mr. Z, a supplier registered in Hyderabad (Telangana), procures goods from China and directly supplies the same to a customer in US. With reference to the provisions of GST law, examine whether the supply of goods by Mr. Z to customer in US is an inter-State supply?

   (ii) RST Inc., a corn chips manufacturing company based in USA, intends to launch its products in India. However, the company wishes to know the taste and sensibilities of Indians before launching its products in India. For this purpose, RST Inc. has approached ABC Consultants, Mumbai, (Maharashtra) to carry out a survey in India to enable it to make changes, if any, in its products to suit Indian taste.

   The survey is to be solely based on the oral replies of the surveyees; they will not be provided any sample by RST Inc. to taste. ABC Consultants will be paid in convertible foreign exchange for the assignment.

   With reference to the provisions of GST law, determine the place of supply of the service. Also, explain whether the said supply will amount to export of service?

6. Krishna Motors is a car dealer selling cars of an international car company. It also provides maintenance and repair services of the cars sold by it as also of other cars. It seeks your advice on availability of input tax credit in respect of the following expenses incurred by it during the course of its business operations:

   (i) Cars purchased from the manufacturer for making further supply of such cars. Two of such cars are destroyed in accidents while being used for test drive by potential customers.

   (ii) Works contract services availed for constructing a car washing shed in its premises

7. ABC Pvt. Ltd., New Delhi, provides support services to foreign customers in relation to procuring goods from India. The company identifies the prospective vendor, reviews product quality and pricing and then shares the vendor details with the foreign customer.

   The foreign customer then directly places purchase order on the Indian vendor for purchase of the specified goods. ABC Pvt. Ltd. charges its foreign customer cost plus 10% mark up for services provided by it.

   For the month of December, 20XX, the company has charged US $ 1,00,000 (exclusive of GST) to its foreign customer. With reference to the provisions of GST law, examine whether the company is liable to pay IGST or CGST and SGST.

   Note: GST @ 18% is applicable on supply of the support services provided by ABC Pvt. Ltd. Rate of exchange is ₹ 65 per US $.

8. SNP Pvt. Ltd., Coimbatore exclusively manufactures and sells product 'Z' which is exempt from GST vide notifications issued under relevant GST legislations. The company sells 'Z' only within Tamil Nadu. The turnover of the company in the previous year was ₹ 55 lakh. The company expects the sales to grow by 20% in the current year. Owing to the growing demand for the product, the company decided to increase its production capacity and purchased additional machinery for manufacturing 'Z' on 01.07.20XX. The purchase price of the capital goods was ₹ 20 lakh exclusive of GST @ 18%.

   However, effective from 01.11.20XX, exemption available on 'Z' was withdrawn by the Central Government and GST @ 12% was imposed thereon. The turnover of the company for the half year ended on 30.09.20XX was ₹ 40 lakh.

   The Board of Directors of SNP Pvt. Ltd. wants to know-

   (a) whether they have to register under GST?

   (b) whether they can take input tax credit on machinery purchased? If yes, then how much credit can be availed?

   Advice Board of Directors of SNP Pvt. Ltd. on the above issues with reference to the provisions of GST law.

9. Rishabh Enterprises – a sole proprietorship firm – started an air-conditioned restaurant in Virar, Maharashtra in the month of February wherein the customers are served cooked food as well as cold drinks/non-alcoholic beverages. In March, the firm opened a liquor shop in Raipur, Uttarakhand for trading of alcoholic liquor for human consumption.

   Determine whether Rishabh Enterprises is liable to be registered under GST law with the help of the following information:

Particulars	**February**	**March**
	(₹)*	**(₹)***
Serving of cooked food and cold drinks/non-alcoholic beverages in restaurant in Maharashtra	5,50,000	6,50,000

Sale of alcoholic liquor for human consumption in Uttarakhand		5,00,000
Interest received from banks on the fixed deposits	1,00,000	1,00,000
Export of packed food items from restaurant in Maharashtra	1,50,000	2,00,000

* excluding GST

You are required to provide reasons for treatment of various items given above.

10. Answer the following questions:

    (i) Shagun started supply of goods in Vasai, Maharashtra from 01.01.20XX. Her turnover exceeded ₹ 20 lakh on 25.01.20XX. However, she didn't apply for registration. Determine the amount of penalty, if any, that may be imposed on Shagun on 31.03.20XX, if the tax evaded by her, as on said date, on account of failure to obtain registration is ₹ 1,26,000.

    (ii) Sagar, managing director of Telecom Solutions Ltd., is issued a summon to appear before the central tax officer to produce the books of accounts of Telecom Solutions Ltd. in an inquiry conducted on said company. Determine the amount of penalty, if any, that may be imposed on Sagar, if he fails to appear before the central tax officer.

11. Rajul has been issued a show cause notice (SCN) on 31.12.2021 under section 73(1) of the CGST Act, 2017 on account of short payment of tax during the period between 01.07.2017 and 31.12.2017. He has been given an opportunity of personal hearing on 15.01.2022.

    Advice Rajul as to what should be the written submissions in the reply to the show cause notice issued to him.

12. Mr. A had filed an appeal before the Appellate Tribunal against an order of the Appellate Authority where the issue involved related to place of supply. The order of Appellate Tribunal is also in favour of the Department. Mr. A now wants to file an appeal against the decision of the Appellate Authority as he feels the stand taken by him is correct.

    You are required to advise him suitably with regard to filing of an appeal before the appellate forum higher than the Appellate Tribunal.

13. Elaborate the duties of Anti-profiteering Authority.

14. With reference to section 54(3) of the CGST Act, 2017, mention the cases where refund of unutilised input tax credit is allowed.

15. Ranjan intends to start selling certain goods in Delhi. However, he is not able to determine (i) the classification of the goods proposed to be supplied by him [as the classification of said goods has been contentious] and (ii) the place of supply if he supplies said goods from Delhi to buyers in U.S.

Ranjan's tax advisor has advised him to apply for the advance ruling in respect of these issues. He told Ranjan that the advance ruling would bring him certainty and transparency in respect of the said issues and would avoid litigation later. Ranjan agreed with his view, but has some apprehensions.

In view of the information given above, you are required to advise Ranjan with respect to following:

(i) The tax advisor asks Ranjan to get registered under GST law before applying for the advance ruling as only a registered person can apply for the same. Whether Ranjan needs to get registered?

(ii) Can Ranjan seek advance ruling to determine (a) the classification of the goods proposed to be supplied by him and (b) the place of supply, if he supplies said goods from Delhi to buyers in U.S?

(iii) Ranjan is apprehensive that if at all advance ruling is permitted to be sought, he has to seek it every year. Whether Ranjan's apprehension is correct?

(iv) The tax advisor is of the view that the order of Authority for Advance Ruling (AAR) is final and is not appealable. Whether the tax advisor's view is correct?

(v) Sambhav - Ranjan's friend - is a supplier registered in Delhi. He is engaged in supply of the goods, which Ranjan proposes to supply at the same commercial level that Ranjan proposes to adopt.

He intends to apply the classification of the goods as decided in the advance ruling order to be obtained by Ranjan, to the goods supplied by him in Delhi. Whether Sambhav can do so?

16. Product 'Z' was imported by Mr. X by air. The details of the import transaction are as follows:

Particulars	US $
Price of 'Z' at exporter's factory	8,500
Freight from factory of the exporter to load airport (airport in the country of exporter)	250
Loading and handling charges at the load airport	250
Freight from load airport to the airport of importation in India	4,500
Insurance charges	2,000

Though the aircraft arrived on 22.08.20XX, the bill of entry for home consumption was presented by Mr. X on 20.08.20XX.

The other details furnished by Mr. X are:

	20.08.20XX	22.08.20XX
Rate of basic customs duty	20%	10%
Exchange rate notified by CBEC	₹ 60 per US$	₹ 63 per US$
Exchange rate prescribed by RBI	₹ 61 per US$	₹ 62 per US$
Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975	18%	12%

Compute-

(i) value of product 'Z' for the purpose of levying customs duty

(ii) customs duty and tax payable

17. An importer from Cochin imports goods from an exporter in US. The vessel carrying the goods reaches Mumbai port first and from there goods are transshipped to Cochin port.

    Determine the assessable value of the imported goods under the Customs Act, 1962 from the following particulars:

S.No.	Particulars	Amount
(i)	Cost of the machine at the factory of the exporter	US $ 20,000
(ii)	Transport charges from the factory of exporter to the port for shipment	US $ 1,000
(iii)	Handling charges paid for loading the machine in the ship	US $ 100
(iv)	Buying commission paid by the importer	US $ 100
(v)	Freight charges from exporting country to India	US $ 2,000
(vi)	Actual insurance charges paid are not ascertainable	---
(vii)	Charges for design and engineering work undertaken for the machine in US	US $ 5,000
(viii)	Unloading and handling charges paid at the place of importation	₹ 1,500
(ix)	Transport charges from Mumbai to Cochin port	₹ 25,000
(x)	Exchange rate to be considered: 1$ = ₹ 60	

18. Determine the assessable value of imported goods in the following cases:

    Case I

Particulars	US $
FOB value	1,000

Freight, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	Not known
Insurance charges	10

Case II

Particulars	**US $**
FOB value plus insurance charges	1,010
Freight, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	Not known

Case III

Particulars	**US $**
FOB value	1,000
Sea freight, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	60
Insurance charges	Not known

Case IV

Particulars	**US $**
FOB value plus sea freight and loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	1,060
Insurance charges	Not known

Case V

Particulars	**US $**
FOB value	1,000
Air freight, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	250
Insurance charges	10

19. With reference to the recent amendments made in the Customs Act, 1962, examine the validity of the following statements:

    (a) A beneficial owner of imported goods is a person on whose behalf the goods are being imported.

    (b) Customs area does not include a warehouse.

    (c) Customs station includes international courier terminal.

20. With reference to the recent facility, 'Clear first-Pay later' extended to importers under the customs law, answer the following questions:
    (i) What is the objective of the facility?
    (ii) Who is eligible to avail this scheme?
    (iii) What are the due dates for payment of duty under this facility?
    (iv) What are the circumstances when the deferred payment facility will not be available?

SUGGESTED ANSWERS

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

S.No.	Particulars	₹
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
	Total GST liability	**15,12,000**

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. **Computation of GST liability of ABC Ltd.**

Particulars	**(₹)**
Price of machine [Note 1]	40,00,000
Handling and loading charges [Note 2]	10,000
Installation and commissioning charges [Note 3]	1,00,000
Transportation cost [Note 4]	Nil
Additional warranty cost [Note 5]	3,00,000
Grant from DEF Ltd. [Note 6]	2,00,000
Total price of the machine	46,10,000
Less: 2% cash discount on price of machinery = Rs.40,00,000 × 2% [Note 7]	80,000
Taxable value of supply	45,30,000
Tax liability for the month of August 20XX [Note 11]	
IGST @ 12% [Note 8 and Note 9]	5,43,600
Tax liability for the month of October 20XX [Note 11]	
Interest collected @ 3% on ₹ 44,10,000 [Note 10]	1,32,300
Cash discount recovered [Note 10]	80,000
Cum-tax value of interest and cash discount	2,12,300
IGST = (₹ 2,12,300/112) x 12%	22,746
Total IGST payable on the machinery	**5,66,346**

Notes:

(1) As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e., the price actually paid or payable for the said supply when the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply. It is assumed that ABC Ltd. and D Pvt. Ltd are not related and the price is the sole consideration for the supply.

(2) All incidental expenses charged by the supplier to the recipient of a supply are includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017.

(3) Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017.

(4) Transportation cost has not been included in the value of supply of the machinery as it is a separate service contract between the customer and the third-party service provider. The customer pays the freight directly to the service provider.

The supplier (ABC Ltd), in this case, merely arranges for the transport and does not provide the transport service on its own account. Tax will be separately levied on the supply of service of transportation of goods under reverse charge.

(5) Warranty cost is includible in the value of the supply since transaction value includes all elements of the price excluding those that can be specifically excluded as per section 15 of the CGST Act.

(6) Subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments are includible in the value of supply in terms of section 15(2)(e) of the CGST Act, 2017.

(7) Cash discount was deducted by ABC Ltd. upfront at the time of supply on August 1, 20XX and hence, the same is excluded from the value of supply as it did not form part of the transaction value.

(8) In the given case-

- the location of the supplier is in Noida (UP); and
- the place of supply of machinery is the place of installation of the machinery i.e., Gurugram (Haryana) in terms of section 10(1)(d) 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.

(9) The given supply is a composite supply involving supply of goods (machinery) **and** services (handling and loading and installation and commissioning) where the principal supply is the supply of goods.

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. Thus, tax rate applicable to the goods (machinery) has been considered.

(10) Interest for the delayed payment of any consideration for any supply is includible in the value of supply in terms of section 15(2)(d) of the CGST Act, 2017. Further, cash discount recovered will also be includible in the value of supply as now the transaction value i.e., the price actually paid for the machinery is devoid of any discount.

The cash discount not allowed and interest have to be considered as cum tax value and tax payable thereon has to be computed by making back calculations in terms of rule 35 of CGST Rules, 2017.

(11) It has been assumed that the invoice for the supply has been issued on August 1, 20XX, the date on which the supply is made. Thus, the time of supply of goods is August 1, 20XX in terms of section 12(1)(a) of the CGST Act, 2017.

As per section 12(6) of the CGST Act, 2017, the time of supply in case of addition in value by way of interest, late fee, penalty etc. for delayed payment of consideration for goods is the date on which the supplier receives such addition in value. Thus, the time of supply of interest received and cash discount recovered on account of delayed payment of consideration is 31st October, 20XX, the date when the full payment was made. The supplier may issue a debit note for such interest and cash discount recovered.

3. Computation of net GST payable by M/s XYZ

Particulars	GST payable (₹)
Gross GST liability [Refer Working Note 1 below]	2,63,400
Less: Input tax credit [Refer Working Note 2 below]	2,00,000
Net GST liability	**63,400**

Working Notes

(1) **Computation of gross GST liability**

Particulars	Value received (₹)	Rate of GST	GST payable (₹)
Hiring charges for excavators	18,00,000	12%	2,16,000
Service charges for supply of manpower for operation of excavators [Refer Note 1]	20,000	12%	2,400
Service charges for soil testing and seismic evaluation [Refer Note 2]	2,50,000	18%	45,000
Gross GST liability			**2,63,400**

Notes:

(i) Since the excavators are invariably hired out along with operators and excavator operators are supplied only when the excavator is hired out, it is a case of composite supply under section 2(30) of the CGST Act, 2017 wherein the principal supply is the hiring out of the excavator.

As per section 8(a) of the CGST Act, 2017, the composite supply is treated as the supply of the principal supply. Therefore, the supply of manpower for operation of the excavators will also be taxed at the rate applicable for hiring out of the excavator (principal supply), which is 12%.

(ii) Soil testing and seismic evaluation services being independent of the hiring out of excavator will be taxed at the rate applicable to them, which is 18%.

(2) **Computation of input tax credit available for set off**

Particulars	**GST paid (₹)**	**ITC available (₹)**
Annual maintenance services for excavators [Refer Note 1]	1,00,000	1,00,000
Health insurance for excavator operators [Refer Note 2]	11,000	-
Scientific and technical consultancy [Refer Note 1]	1,00,000	1,00,000
Total input tax credit available		**2,00,000**

Notes:

(i) Section 17(5)(d) of the CGST Act, 2017 blocks credit on goods and/or services received by a taxable person for construction of an immovable property on his own account. Here, though the excavators are used for building projects, the same are not used by M/s XYZ on its own account for construction of immovable property; instead they are used for outward taxable supply of hiring out of machinery.

Therefore, the annual maintenance service for the excavators does not get covered by the bar under section 17 of the CGST Act, 2017 and the credit thereon will be available. The same applies for scientific & technical consultancy for construction projects because in this case also, the service is used for providing the outward taxable supply of soil testing and seismic evaluation service and not for construction of immovable property.

(ii) Section 17(5)(b)(iii) of the CGST Act, 2017 allows input tax credit on health insurance only when:

(a) the Government notifies the services as obligatory for an employer to provide to its employees under any law for the time being in force; or

(b) the said service is used for making an outward taxable supply of the same category of service or as part of a taxable composite or mixed supply.

Since, in the given case, the health insurance service does not fall under any of the above two categories, the credit thereon will not be allowed.

4. As per section 10(1) of the CGST Act, 2017, a registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1 crore, may opt to pay, in lieu of the tax payable by him, an amount calculated at such rate as may be prescribed, but not exceeding,––

(a) 1% of the turnover in State/ Union territory in case of a manufacturer,

(b) 2.5% of the turnover in State/ Union territory in case of persons engaged in making supplies referred to in clause (b) of paragraph 6 of Schedule II (restaurant services), and

(c) 0.5% of the turnover in State/ Union territory in case of other suppliers.

Further, sub-section (2) of section 10 lays down that the registered person shall be eligible to opt for composition levy if:—

(a) he is not engaged in the supply of services other than restaurant services;

(b) he is not engaged in making any supply of goods which are not leviable to tax under CGST Act; 2017

(c) he is not engaged in making any inter-State outward supplies of goods;

(d) he is not engaged in making any supply of goods through an electronic commerce operator who is required to collect tax at source under section 52; and

(e) he is not a manufacturer of such goods as may be notified by the Government on the recommendations of the Council.

Basis above provisions, a firm of Chartered Accountants, being a supplier of professional services (other than restaurant services) is not eligible to apply for composition scheme. Therefore, it has to discharge its tax liability under regular provisions at the applicable rates.

(a) The answer will not change even if the turnover of the firm had been ₹ 90 lakh since the ineligibility of the firm to opt for composition scheme is not linked with the turnover of the firm, but with the nature of the services supplied by the firm.

Therefore, since even with turnover of ₹ 90 lakh the ineligibility in respect of nature of services supplied by firm exists i.e., the firm provides professional services and not restaurant services; it will not be eligible for composition scheme.

(b) The answer will not change even if the firm is providing support services to restaurants as only the supplier providing restaurant services *per se* are eligible for composition scheme.

5. (i) The transaction undertaken by Mr. Z is neither import nor export of goods in terms of Customs Act, 1962. However, it is an inter-State supply in terms of provisions of section 7(5)(a) of the IGST Act, 2017 which provides that when the supplier is located in India and the place of supply is outside India, supply of goods or services or both, shall be treated to be a supply of goods or services or both in the course of inter-State trade or commerce.

(ii) As per section 13(2) of the IGST Act, 2017, in case where the location of the supplier of services or the location of the recipient of services is outside India, the place of supply of services except the services specified in sub-sections (3) to (13) shall be the location of the recipient of services. Sub-sections (3) to (13) provide the mechanism to determine the place of supply in certain specific situations.

The given case does not fall under any of such specific situations and thus, the place of supply in this case will be determined under sub-section (2) of section 13. Thus, the place of supply of services in this case is the location of recipient of services i.e., USA.

As per section 2(6) of the IGST Act, 2017, export of services means the supply of any service when,–

(a) the supplier of service is located in India;

(b) the recipient of service is located outside India;

(c) the place of supply of service is outside India;

(d) the payment for such service has been received by the supplier of service in convertible foreign exchange; and

(e) the supplier of service and the recipient of service are not merely establishments of a distinct person in accordance with Explanation 1 in section 8.

Since all the above five conditions are fulfilled in the given case, the same will be considered as an export of service.

6. As per section 16(1) of the CGST Act, 2017, every registered person can take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business. However, section 17(5) of CGST Act, 2017 specifies certain goods and services on which the input tax credit is not available.

In the light of the foregoing provisions, the availability of input tax credit (ITC) in respect of the various expenses incurred by Krishna Motors is discussed below:

(i) Section 17(5)(a) specifically blocks ITC on motor vehicles and other conveyances.

However, the same is allowed when the motor vehicles and other conveyances are used, *inter alia,* for further supply of such vehicles or conveyances. Thus, ITC on cars purchased from the manufacturer for making further supply of such cars will be allowed.

However, ITC on the cars destroyed in accident will not be allowed as the ITC on goods destroyed for whichever reason is specifically blocked under section 17(5)(h) of CGST Act.

(ii) Section 17(5)(c) specifically blocks ITC on works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service. Since, in this case the car washing shed is not a plant and machinery and the works contract service is not used for further supply of works contract service, ITC thereon will not be allowed.

7. Section 2(13) of the IGST Act, 2017 defines "intermediary" to mean a broker, an agent or any other person, by whatever name called, who arranges or facilitates the supply of goods or services or both, or securities, between two or more persons, but does not include a person who supplies such goods or services or both or securities on his own account.

In this case, since ABC Pvt. Ltd. is arranging or facilitating supply of goods between the foreign customer and the Indian vendor, the said services can be classified as intermediary services.

If the location of the supplier of services or the location of the recipient of service is outside India, the place of supply is determined in terms of section 13 of the IGST Act, 2017. Since, in the given case, the recipient of supply is located outside India, the provisions of supply of intermediary services will be determined in terms of section 13 of the IGST Act, 2017.

As per section 13(8)(b), the place of supply in case of intermediary services is the location of the supplier i.e., the location of ABC Pvt. Ltd. which is New Delhi. Further, as per section 8(2) of the IGST Act, 2017, supply of services where the location of the supplier and the place of supply of services are in the same State is treated as intra-State supply.

Therefore, since in the given case, both the location of ABC Pvt. Ltd. and the place of supply of the service provided by it are in New Delhi, the supply of service will be an intra-State supply leviable to CGST & SGST.

Assuming that the given rate of exchange is prevailing on the date of time of supply of services, the CGST and SGST liability will be worked out as under:

CGST = ₹ 5,85,000 (1,00,000 x 65 x 9%)

SGST = ₹ 5,85,000 (1,00,000 x 65 x 9%)

8. **(a)** Section 22(1) of the CGST Act, 2017 *inter alia* provides that every supplier, whose aggregate turnover in a financial year exceeds ₹ 20,00,000, is liable to be registered under GST in the State/ Union territory from where he makes the taxable supply of goods and/or services.

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

In the given case, the turnover of the company for the half year ended on 30.09.20XX is ₹ Rs 40 lakh which is more than the threshold limit of ₹ 20 lakh. Therefore, as per section 22 of CGST Act 2017, the company will be liable to registration. However, since SNP Pvt. Ltd. supplied exempted goods till 31.10.20XX, it was not required to be registered till that day; though voluntary registration was allowed under section 25(3) of the CGST Act, 2017.

However, the position will change from 01.11.20XX as the supply of goods become taxable from that day and the turnover of company is above ₹ 20 lakh. It is important to note here that in terms of section 2(6) of the CGST Act, 2017, the aggregate turnover limit of ₹ 20 lakh includes exempt turnover also.

Therefore, turnover of 'Z' will be considered for determining the limit of ₹ 20 lakh even though the same was exempt from GST. Therefore, the company needs to register within 30 days from 01.11.20XX (the date on which it becomes liable to registration) in terms of section 25(1) of the CGST Act, 2017.

Further, the company cannot avail exemption of ₹ 20 lakh from 01.11.20XX as the GST law does not provide any threshold exemption from payment of tax but threshold exemption from obtaining registration (which in this case had been crossed).

(b) Rule 43(1)(a) of the CGST Rules, 2017 disallows input tax credit on capital goods used or intended to be used exclusively for effecting exempt supplies.

However, as per section 18(1)(d) of the CGST Act, 2017, where an exempt supply of goods and/or services by a registered person becomes a taxable supply, such person gets entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relatable to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable.

Rule 40(1)(a) of the CGST Rules, 2017 lays down that the credit on capital goods can be claimed after reducing the tax paid on such capital goods by 5% per quarter of a year or part thereof from the date of the invoice.

Therefore, in the given case, SNP Pvt. Ltd. could not claim credit on machinery till the time it was supplying exempt goods. However, it can claim credit from

31.10.20XX - the day immediately preceding the date from which the supply became taxable (01.11.20XX).

The credit will be available for the remaining useful life of the machinery and will be computed as follows:

Date of purchase of machinery	01.07.20XX
Date on which credit becomes eligible	31.10.20XX
Number of quarters for which credit is to be reduced	2 (including part of quarter)
GST paid on machinery [₹ 20,00,000 x 18%]	₹ 3,60,000
Credit to be reduced [₹ 3,60,000 x 5% x 2]	₹ 36,000
Amount of credit that can be taken [₹ 3,60,000 – ₹ 36,000]	**₹ 3,18,000**

9. As per section 22 of the CGST Act, 2017, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 20 lakh.

However, if such taxable supplies are made from any of the specified special category States, namely, States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand, he shall be liable to be registered if his aggregate turnover in a financial year exceeds ₹ 10 lakh.

In the given question, since Rishabh Enterprises is engaged in making taxable supplies from Maharashtra which is not a specified Special Category State, the threshold limit for obtaining registration is ₹ 20 lakh.

The threshold limit is not reduced to ₹ 10 lakh in this case, as sale of alcoholic liquor for human consumption from Uttarakhand (one of the specified Special Category States) are non-taxable supplies in terms of section 9(1) of CGST Act, 2017.

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

(i) all taxable supplies,

(ii) all exempt supplies,

(iii) exports of goods and/or services and

(iv) all inter-State supplies of persons having the same PAN.

The above is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover'.

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

Computation of aggregate turnover of Rishabh Enterprises

Particulars	**Turnover of February (₹)**	**Cumulative turnover of February & March (₹)**
Serving of cooked food and cold drinks/non-alcoholic beverages in restaurant in Maharashtra	5,50,000	12,00,000 [₹ 5,50,000 + ₹ 6,50,000]
Add: Sale of alcoholic liquor for human consumption in Uttarakhand [Note-1]		5,00,000
Add: Interest received from banks on the Fixed Deposits [Note-2]	1,00,000	2,00,000 [₹ 1,00,000 + ₹ 1,00,000]
Add: Export of packed food items from restaurant in Maharashtra	1,50,000	3,50,000 [₹ 1,50,000 + ₹ 2,00,000]
Aggregate Turnover	8,00,000	22,50,000

Notes:

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

Rishabh Enterprises was not liable to be registered in the month of February since its aggregate turnover did not exceed ₹ 20 lakh in that month. However, since its aggregate turnover exceeds ₹ 20 lakh in the month of March, it should apply for registration within 30 days from the date on which it becomes liable to registration.

10. (i) Where the aggregate turnover of a supplier making supplies from a State/UT exceeds ₹20 lakh in a financial year, he is liable to be registered in the said State/UT. The said supplier must apply for registration within 30 days from the date on which he becomes liable to registration. However, in the given case, although

Shagun became liable to registration on 25.01.20XX, she didn't apply for registration within 30 days of becoming liable to registration.

Section 122(1)(xi) of the CGST Act, 2017 stipulates that a taxable person who is liable to be registered under the CGST Act, 2017 but fails to obtain registration shall be liable to pay a penalty of:

(a) ₹ 10,000

or

(b) an amount equivalent to the tax evaded [₹ 1,26,000 in the given case],

whichever is higher.

Thus, the amount of penalty that can be imposed on Shagun is ₹ 1,26,000.

(ii) Section 122(3)(d) of the CGST Act, 2017 stipulates that any person who fails to appear before the officer of central tax, when issued with a summon for appearance to give evidence or produce a document in an inquiry is liable to a penalty which may extend to ₹ 25,000. Therefore, penalty upto ₹ 25,000 can be imposed on Sagar, in the given case.

11. The written submissions in reply to SCN issued to Rajul are as follows:

i. The show cause notice (SCN) issued for normal period of limitation under section 73(1) of the CGST Act, 2017 is not sustainable.

ii. The SCN under section 73(1) of the CGST Act, 2017 can be issued at least 3 months prior to the time limit specified for issuance of order under section 73(10) of the CGST Act, 2017. The adjudication order under section 73(10) of the CGST Act, 2017 has to be issued within 3 years from the due date for furnishing of annual return for the financial year to which the short-paid tax relates to.

The due date for furnishing annual return for a financial year is on or before the 31st day of December following the end of such financial year [Section 44 of the CGST Act, 2017]. Thus, SCN under section 73(1) of the CGST Act, 2017 can be issued within 2 years and 9 months from the due date for furnishing of annual return for the financial year to which the short-paid tax relates to.

iii. The SCN has been issued for the period between 01.07.2017 to 31.12.2017 which falls in the financial year (FY) 2017-18. Due date for furnishing annual return for the FY 2017-18 is 31.12.2018 and 3 years' period from due date of filing annual return lapses on 31.12.2021. Thus, SCN under section 73(1) ought to have been issued latest by 30.09.2021.

iv. Since the notice has been issued after 30.09.2021, the entire proceeding is barred by limitation and deemed to be concluded under section 75(10) of the CGST Act, 2017.

12. As per section 117(1) of the CGST Act, 2017, an appeal against orders passed by the State Bench or Area Benches of the Tribunal lies to the High Court if the High Court is satisfied that such an appeal involves a substantial question of law.

However, appeal against orders passed by the National Bench or Regional Benches of the Tribunal lies to the Supreme Court and not High Court. As per section 109(5) of the Act, only the National Bench or Regional Benches of the Tribunal can decide appeals where one of the issues involved relates to the place of supply.

Since the issue involved in Mr. A's case relates to place of supply, the appeal in his case would have been decided by the National Bench or Regional Bench of the Tribunal. Thus, Mr. A will have to file an appeal with the Supreme Court and not with the High Court.

13. The duties of the Anti-profiteering Authority are:

(i) to determine whether the reduction in tax rate or the benefit of input tax credit has been passed on by the seller to the buyer (hereinafter collectively referred to as 'benefit') by reducing the prices

(ii) to identify the taxpayer who has not passed on the benefit

(iii) to order

(a) reduction in prices

(b) return to the recipient, an amount equivalent to the amount not passed on by way of commensurate reduction in prices along with interest at the rate of 18% from the date of collection of the higher amount till the date of the return of such amount or recovery of the amount not returned, as the case may be.

If the eligible person does not claim return of the amount or is not identifiable, the amount must be deposited in the Consumer Welfare Fund;

(c) imposition of penalty

(d) cancellation of registration

(iv) to furnish a performance report to the GST Council by the 10^{th} of the month succeeding each quarter [Rule 127 of the CGST Rules, 2017].

14. As per section 54(3) of the CGST Act, 2017, a registered person may claim refund of unutilised input tax credit at the end of any tax period in the following cases:

(i) **Zero rated supplies:** Supply of goods/services/both to an SEZ developer/unit or export of goods or services or both. However, refund of unutilized input tax credit shall not be allowed if:

- the goods exported out of India are subjected to export duty;
- the supplier of goods or services or both avails of drawback in respect of CGST or claims refund of the IGST paid on such supplies.

(ii) **Accumulated ITC on account of inverted duty structure:** Where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies (other than nil rated or fully exempt supplies), except supplies of goods or services or both as may be notified by the Government on the recommendations of the Council.

15. (i) Advance ruling under GST can be sought by a registered person or a person desirous of obtaining registration under GST law [Section 95(c) of the CGST Act, 2017]. Therefore, it is not mandatory for a person seeking advance ruling to be registered.

(ii) Section 97(2) of the CGST Act, 2017 stipulates the questions/matters on which advance ruling can be sought. It provides that advance ruling can be sought for, *inter alia,* determining the classification of any goods or services or both. Therefore, Ranjan can seek the advance ruling for determining the classification of the goods proposed to be supplied by him.

Determination of place of supply is not one of the specified questions/matters on which advance ruling can be sought under section 97(2). Further, section 96 of the CGST Act, 2017 provides that AAR constituted under the provisions of an SGST Act/UTGST Act shall be deemed to be the AAR in respect of that State/Union territory under CGST Act also.

Thus, AAR is constituted under the respective State/Union Territory Act and not the central Act. This implies that ruling given by AAR will be applicable only within the jurisdiction of the concerned State/Union territory.

It is also for this reason that the questions on determination of place of supply cannot be raised with the AAR. Hence, Ranjan cannot seek the advance ruling for determining the place of supply of the goods proposed to be supplied by him.

Note: The above answer is based on the view taken by the CBEC in its e-flier issued on the subject of advance ruling. The e-flier is available on the CBEC's website. However, it can be also be argued that the question relating to determination of the liability to pay tax on goods and/or services as provided under section 96(2)(e) of the CGST Act, 2017 encompasses within its ambit the question relating to place of supply. This is so because place of supply is one of the factor to determine as to whether the supply is leviable to CGST & SGST or IGST.

(iii) Section 103(2) of the CGST Act, 2017 stipulates that the advance ruling shall be binding unless the law, facts or circumstances supporting the original advance ruling have changed. Therefore, once Ranjan has sought the advance ruling with respect to an eligible matter/question, it will be binding till the time the law, facts and circumstances supporting the original advance ruling remain same.

(iv) No, the tax advisor's view is not correct. As per section 100 of the CGST Act, 2017, if the applicant is aggrieved with the finding of the AAR, he can file an appeal with

Appellate Authority for Advance Ruling (AAAR). Similarly, if the concerned/ jurisdictional officer of CGST/SGST does not agree with the findings of AAR, he can also file an appeal with AAAR.

Such appeal must be filed within 30 days from the receipt of the advance ruling. The Appellate Authority may allow additional 30 days for filing the appeal, if it is satisfied that there was a sufficient cause for delay in presenting the appeal.

(v) Section 103 of the CGST Act provides that an advance ruling pronounced by AAR is binding only on the applicant who had sought it and on the concerned officer or the jurisdictional officer in respect of the applicant. This implies that an advance ruling is not applicable to similarly placed other taxable persons in the State. It is only limited to the person who has applied for an advance ruling.

Thus, Sambhav will not be able to apply the classification of the goods that will be decided in the advance ruling order to be obtained by Ranjan, to the goods supplied by him in Delhi.

16. Computation of assessable value of product 'Z'

Particulars		**Amount**
Ex-factory price of the goods		8,500 US $
Freight from factory of the exporter to load airport (airport in the country of exporter)	250 US $	
Loading and handling charges at the load airport	250 US $	
Freight from load airport to the airport of importation in India	4,500 US $	
Total cost of transport, loading and handling charges associated with the delivery of the imported goods to the place of importation	5,000 US $	
Add: Cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation (restricted to 20% of FOB value) [Note 1]		1,800 US $
Insurance (actual)		2,000 US $
CIF for customs purpose		12,300 US $
Value for customs purpose		12,300 US $
Exchange rate as per CBEC [Note 2]		₹ 60 per US $
		Amount (₹)
Assessable value (₹ 60 x 12,300 US $)		**7,38,000**
Add: Basic customs duty @ 10% [Note 3]		73,800

Add: Education cess @ 2% & Secondary & Higher Education Cess @ 1% of custom duty [3% of ₹ 73,800]	2,214
Value for the purpose of levying integrated tax [Note 4]	8,14,014
Add: Integrated tax leviable under section 3(7) @ 12%	97,681.68
Total duty & tax payable (rounded off)	**1,73,696**

Notes:

(1) In the case of goods imported by air, the cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation shall not exceed 20% of the FOB value of the goods. [Fifth proviso to rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR)].

FOB value in this case is the ex-factory price of the goods (8,500 US $) plus the cost of transport from factory to load airport (250 US $) plus loading and handling charges at the load airport (250 US $) which is 9,000 US $.

(2) Rate of exchange determined by CBEC is to be considered [Clause (a) of the explanation to section 14 of the Customs Act, 1962].

(3) Section 15 of the Customs Act, 1962 provides that rate of duty shall be the rate in force on the date of presentation of bill of entry or the rate in force on the date of arrival of aircraft, whichever is later.

(4) Integrated tax is levied on the sum total of the assessable value of the imported goods and customs duties [Section 3(8) of the Customs Tariff Act, 1962]. Education Cess and Secondary Higher Education Cess leviable on integrated tax have been exempted vide *Notification Nos. 54 & 55 Cus both dated 30.06.2017.*

(5) No landing charges are to be added to the CIF value in view of the amendment in rule 10(2) of the CVR vide *Notification No. 91/2017 – Cus. (NT) dated 26.09.2017.*

17. Computation of assessable value of imported goods

Particulars	**Amount (US $)**
Price of the machine at the factory of the exporter	20,000
Add: Transport charges up to the port in the country of the exporter [Note 1]	1,000
Handling charges at the port in the country of the exporter [Note 1]	100
Charges for design and engineering work undertaken for the machine in US [Note 2]	5,000

Buying commission [Note 3]	Nil
FOB value	26,100.00
Add: Freight charges up to India	2,000.00
Insurance charges @ 1.125% of FOB [Note 4]	293.63
Transport charges from Mumbai to Cochin port [Note 5]	Nil
CIF value	28,393.63
Add: Unloading and handling charges paid at the place of importation [Note 6]	Nil
Assessable value	28,393.63
Assessable value in Indian rupees @ ₹ 60/ per $	₹ 17,03,617.80
Assessable value (rounded off)	₹ 17,03,618

Notes:

(1) The cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation are includible in the assessable value [Rule 10(2)(a) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR)].

(2) Design and engineering work undertaken elsewhere than in India and necessary for the production of the imported goods is includible in the assessable value [Rule 10(1)(b)(iv) of the CVR].

(3) Buying commission is not included in the assessable value [Rule 10(1)(a)(i) of the CVR].

(4) If insurance cost is not ascertainable, the same shall be added @ 1.125% of FOB value of the goods [Third proviso to rule 10(2) of the CVR].

(5) Cost of insurance, transport, loading, unloading, handling charges associated with transshipment of imported goods to another customs station in India is not included in the assessable value [Sixth proviso to rule 10(2) of the CVR].

(6) By virtue of the amendment carried out in rule 10(2) of the CVR vide *Notification No. 91/2017Cus. (NT) dated 26.09.2017,* only charges incurred for delivery of goods **"to"** the place of importation are includible in the transaction value.

The loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation are not to be added to the CIF value of the goods. *[Circular No. 39 / 2017 Cus. dated 26.09.2017].*

18. Rule 10(2) of the Customs (Determination of Value of Imported Goods) Rules, 2007 (CVR) has been substituted by a new sub-rule. The new sub-rule provides that for the purposes of sub-section (1) of section 14 of the Customs Act, 1962 and these rules, the value of the imported goods shall be the value of such goods, and shall include -

(a) the cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation;

(b) the cost of insurance to the place of importation:

Provided that where the cost referred to in clause (a) is not ascertainable, such cost shall be 20% of the free on board value of the goods.

Provided further that where the free on board value of the goods is not ascertainable but the sum of free on board value of the goods and the cost referred to in clause (b) is ascertainable, the cost referred to in clause (a) shall be 20% of such sum:

Provided also that where the cost referred to in clause (b) is not ascertainable, such cost shall be 1.125% of free on board value of the goods.

Provided also that where the free on board value of the goods is not ascertainable but the sum of free on board value of the goods and the cost referred to in clause (a) is ascertainable, the cost referred to in clause (b) shall be 1.125% of such sum.

Provided also that in the case of goods imported by air, where the cost referred to in clause (a) is ascertainable, such cost shall not exceed 20% of free on board value of the goods.

Provided also that in the case of goods imported by sea or air and transshipped to another customs station in India, the cost of insurance, transport, loading, unloading, handling charges associated with such transshipment shall be excluded.

Explanation-

The cost of transport of the imported goods referred to in clause (a) includes the ship demurrage charges on charted vessels, lighterage or barge charges.

In the backdrop of the above provisions, the assessable value in the various cases will be computed as under:

Computation of assessable value

Case I

Particulars	**US $**
FOB value	1,000
Add: Cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of	200

importation [20% of FOB value in terms of first proviso to rule 10(2) of CVR]	
Cost of insurance [Includible in terms of rule 10(2)(b) of CVR]	10
Assessable value [CIF value]	**1,210**

Case II

Particulars	**US $**
FOB value plus insurance charges	1,010
Add: Cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation [20% of sum of FOB value of the goods and the cost of insurance in terms of second proviso to rule 10(2) of CVR]	202
Assessable value [CIF value]	**1,212**

Case III

Particulars	**US $**
FOB value	1,000
Add: Cost of sea transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation [Includible in terms of rule 10(2)(a) of CVR]	60
Insurance [1.125% of sum of FOB value of the goods in terms of third proviso to rule 10(2) of CVR]	11.25
Assessable value [CIF value]	1,071.25
Assessable value rounded off	**1,071**

Case IV

Particulars	**US $**
FOB value plus sea freight and loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation	1,060
Add: Insurance [1.125% of sum of FOB value of the goods and sea freight and loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation in terms of fourth proviso to rule 10(2) of CVR]	11.925
Assessable value CIF value	1071.925
Assessable value rounded off	**1,072**

Case V

Particulars	**US $**
FOB value	1,000
Add: Cost of air transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation is restricted to 20% of FOB value when transportation of goods is through air [Fifth proviso to rule 10(2) of CVR]	200
Cost of insurance	10
Assessable value [CIF value]	**1,210**

19. **(a)** **The statement is valid.** A new section 2(3A) has been inserted in the Customs Act, 1962 vide the Finance Act, 2017 to define beneficial owner to mean any person on whose behalf the goods are being imported or exported or who exercises effective control over the goods being imported or exported.

(b) **The statement is not valid.** The definition of customs area as provided under section 2(11) of the Customs Act, 1962 has been amended vide the Taxation Laws (Amendment) Act, 2017 to include within its ambit a warehouse too.

The customs area is now defined to mean the area of a customs station **or a warehouse** and includes any area in which imported goods or export goods are ordinarily kept before clearance by customs authorities.

(c) **The statement is valid.** The Finance Act, 2017 has included international courier terminal and foreign post office within the scope of customs station as defined under section 2(13) of the Customs Act, 1962.

As per the amended section 2(13), a customs station means any customs port, customs airport, international courier terminal, foreign post office or land customs station.

20. **(i)** 'Clear first-Pay later' i.e., deferred duty payment is a mechanism for delinking duty payment and customs clearance. The aim is to have a seamless wharf to warehouse transit in order to facilitate just-in-time manufacturing. This scheme is in force w.e.f. 16th November, 2016.

(ii) Central Government has permitted importers certified under Authorized Economic Operator programme as AEO (Tier-Two) and AEO (Tier-Three) to make deferred payment of import duty (eligible importers).

As a part of the ease of doing business focus of the Government of India, the CBEC has rolled out the AEO (Authorized Economic Operator) programme.

It is a trade facilitation move wherein benefits are extended to the entities who have demonstrated strong internal control systems and willingness to comply with the laws administered by the CBEC.

(iii) The due dates for payment of deferred duty are -

S. No.	Goods corresponding to bill of entry returned for payment from	Due date of payment of duty, inclusive of the period (excluding holidays) as mentioned in section 47(2)
1.	1st day to 15th day of any month	16th day of that month
2.	16th day till the last day of any month other than March	1st day of the following month
3.	16th day till the 31st day of March	31st March

(iv) If there is default in payment of duty by due date more than once in three consecutive months, the facility of deferred payment will not be allowed unless the duty with interest has been paid in full.

The benefit of deferred payment of duty will not be available in respect of the goods which have not been assessed or not declared by the importer in the bill of entry.

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