PAPER – 5 : ADVANCED MANAGEMENT ACCOUNTING

QUESTIONS

Value Added/ Non- Value Added Activities

1. Qwerty manufactures high-quality wooden doors within the forests of Qtown since 1967. 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 April:

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

Life Cycle Costing and Pricing Strategy

2. OR International Ltd. (ORIL) has developed a new product 'α^3'which is about to be launched into the market. Company has spent ₹ 30,00,000 on R&D of product 'α^3'. It has also bought a machine to produce the product 'α^3' costing ₹ 11,25,000 with a capacity of producing 1,100 units per week. Machine has no residual value.

The company has decided to charge price that will change with the cumulative numbers of units sold:

Cumulative Sales (units)	Selling Price ₹ per unit
0 to 2,200	750
2,201 to 7,700	600
7,701 to 15,950	525
15,951 to 59,950	450
59,951 and above	300

Based on these selling prices, it is expected that sales demand will be as shown below:

Weeks	**Sales Demand *per week (units)***
1-10	220
11-20	550
21-30	825
31-70	1,100
71-80	880
81-90	660
91-100	440
101-110	220
Thereafter	NIL

Unit variable costs are expected to be as follows:

	₹ per unit
First 2,200 units	375
Next 13,750 units	300
Next 22,000 units	225
Next 22,000 units	188
Thereafter	225

ORIL uses just-in-time production system. Following is the total contribution statement of the product 'α^3' for its Introduction and Growth phase:

	Introduction	**Growth**	
Weeks	1 - 10	11 - 30	
Number of units Produced and Sold	2,200	5,500	8,250
Selling Price *per unit* (₹)	750	600	525
Variable Cost *per unit* (₹)	375	300	300
Contribution *per unit* (₹)	375	300	225
Total Contribution (₹)	8,25,000	16,50,000	18,56,250

Required

(i) Prepare the total contribution statement for each of the remaining two phases of the product's life cycle.

(ii) Discuss Pricing Strategy of the product 'α^3'.

(iii) Find possible reasons for the changes in cost during the life cycle of the product 'α^3'.

Note: Ignore the time value of money.

Value Chain Analysis – Primary Activity

3. Sinopec Ltd. is engaged in business of manufacturing branded readymade garments. It has a single manufacturing facility at Surat. Raw material is supplied by various suppliers.

   Majority of its revenue comes from export to Euro Zone and US. To strengthen its position further in the Global Market, it is planning to enhance quality and provide assurance through long term warranty.

   For the coming years company has set objective to reduce the quality costs in each of the primary activities in its value chain.

   Required

   State the primary activities as per Porter's Value Chain Analysis in the value chain of Sinopec Ltd with brief description.

Just in Time

4. YP Ltd. (YPL) manufactures and sells one product called "YEIA". Managing Director is not happy with its current purchasing and production system. There has been considerable discussion at the corporate level as to use of 'Just in Time' system for "YEIA". As per the opinion of managing director of YPL Ltd. - *"Just-in-time system is a pull system, which responds to demand, in contrast to a push system, in which stocks act as buffers between the different elements of the system such as purchasing, production and sales. By using Just in Time system, it is possible to reduce carrying cost as well as other overheads".*

   YPL is dependent on contractual labour which has efficiency of 95%, for its production. The labour has to be paid for minimum of 4,000 hours per month to which they produce 3,800 standard hours.

   For availing services of labour above 4,000 hours in a month, YPL has to pay overtime rate which is 45% premium to the normal hourly rate of ₹110 per hour. For avoiding this overtime payment, YPL in its current production and purchase plan utilizes full available normal working hours so that the higher inventory levels in the month of lower demand would be able to meet sales of month with higher demand level. YPL has determined that the cost of holding inventory is ₹70 per month for each standard hour of output that is held in inventory.

   YPL has forecast the demand for its products for the first six months of year 2017 as follows:

Month	Demand (Standard Hrs)
Jan'17	3,150
Feb'17	3,760
Mar'17	4,060
Apr'17	3,350
May'17	3,650
Jun'17	4,830

Following other information is given:

(a) All other production costs are either fixed or are not driven by labour hours worked.

(b) Production and sales occur evenly during each month and at present there is no stock at the end of Dec'16.

(c) The labour are to be paid for their minimum contracted hours in each month irrespective of any purchase and production system.

Required

As a chief accountant, you are requested to comment on managing director's view.

Break-even Point – Production in Batches

5. Z 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:

	Alpha	**Beta**	**Gamma**	**Theta**	**Total**
Sales (units)	2,00,000	2,60,000	1,60,000	3,00,000	
	(₹)	(₹)	(₹)	(₹)	(₹)
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:

Alpha……………………………………………….10,00,000

Beta…………………………………………….....1,00,000

Gamma…………………………………………… 2,00,000

Theta……………………………………………… 1,00,000…………14,00,000

General fixed overheads……………………………………………………6,20,000

31,00,000

The other information is as follows:-

	Alpha	Beta	Gamma	Theta	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 Z Ltd.

(ii) Calculate the break- even volume in batches and also in approximate units for Product 'Alpha'.

Determination of Production Mix/ Production Planning

6. A company is producing three products P, Q & R. Relevant information is given below:

Product	P	Q	R
Raw material per unit (kg)	20	12	30
Machine hours per unit (hours)	3	5	4
Selling price per unit (₹)	500	400	800
Maximum limit of production Unit	1,500	1,500	750

Only 9,200 hours are available for production at a cost of ₹20 per hour and maximum 50,000 kgs. of material @ ₹ 20 per kg., can be obtained.

(Only product mix quantities are to be shown, calculation of total profit at that product mix not required to be shown)

Required

On the basis of the above information determine the product-mix to give the highest profit if at least two products are produced.

Pareto Analysis

7. Generation 2050 Technologies Ltd. develops cutting-edge innovations that are powering the next revolution in mobility and has nine tablet smart phone models currently in the market whose previous year financial data is given below:

Model	Sales (₹'000)	Profit-Volume (PV) Ratio
Tab - A001	5,100	3.53%
Tab - B002	3,000	23.00%
Tab - C003	2,100	14.29%
Tab - D004	1,800	14.17%
Tab - E005	1,050	41.43%
Tab - F006	750	26.00%
Tab - G007	450	26.67%
Tab - H008	225	6.67%
Tab - I009	75	60.00%

Using the financial data, carry out a Pareto analysis (80/20 rule) of Sales and Contribution. Discuss your findings with appropriate recommendations.

Budget and Budgetary Control

8. KLM Ltd manufactures and sells a single product and has estimated sales revenue of ₹397.80 lacs during the year based on 20% profit on selling price. Each unit of product requires 6 kg of material W and 3 kg of material X and processing time of 4 hours in machine shop and 2 hours in assembly shop. Factory overheads are absorbed at a blanket rate of 20% of direct labour. Variable selling & distribution overheads are ₹ 6 per unit sold and fixed selling & distribution overheads are estimated to be ₹7,20,000.

The other relevant details are as under:

Purchase Price	Material W	₹16 per kg	
	Materials X	₹10 per kg	
Labour Rate	Machine Shop	₹14 per hour	
	Assembly Shop	₹7 per hour	
	Finished Stock	**Material W**	**Material X**
Opening Stock	25,000 units	75,000 kg	40,000 kg
Closing Stock	30,000 units	80,000 kg	55,000 kg

Required

Calculate

(i) Number of units of product proposed to be sold and selling price per unit.

(ii) Production budget in units.

(iii) Material purchase budget in units.

Standard Costing – Reconciliation of Budgeted and Actual Profit

9. KYC Toys Ltd. manufactures a single product and the standard cost system is followed. Standard cost per unit is worked out as follows:

	₹
Materials (10 Kgs. @ ₹4 per Kg)	40
Labour (8 hours @ ₹8 per hour)	64
Variable overheads (8 hours @ ₹3 per hour)	24
Fixed overheads (8 hours @ ₹3 per hour)	24
Standard Profit	56

Overheads are allocated on the basis of direct labour hours. In the month of April 2018, there was no difference between the budgeted and actual selling price and there were no opening or closing stock during the period.

The other details for the month of April 2018 are as under

	Budgeted	**Actual**
Production and Sales	2,000 Units	1,800 Units
Direct Materials	20,000 Kgs. @ ₹ 4 per kg	20,000 Kgs.@ ₹ 4 per kg
Direct Labour	16,000 Hrs. @ ₹ 8 per Hr.	14,800 Hrs. @ ₹ 8 per Hr.
Variable Overheads	₹ 48,000	₹ 44,400
Fixed Overheads	₹ 48,000	₹ 48,000

Required

Reconcile the budgeted and actual profit with the help of variances according to each of the following method:

(i) The conventional method

(ii) The relevant cost method assuming that

(a) Materials are scarce and are restricted to supply of 20,000 Kgs. for the period.

(b) Labour hours are limited and available hours are only 16,000 hours for the period.

(c) There are no scarce inputs.

Transfer Pricing

10. Divisions X and Y are two divisions in XY Ltd. Division X manufactures a component (X) which is sold to external customers and also to Division Y.

Details of Division X are as follows:

Market price per component	₹ 300
Variable cost per component	₹ 157
Fixed costs per production period	₹ 20,62,000
Demand from Y Division per production period	20,000 components
Capacity per production period	35,000 components

Division Y assembles a product (Y) which is sold to external customers. Each unit of Y requires two units of X.

Details of Division Y are as follows:

Selling price per unit	₹1,200
Variable cost per unit:	
(i) Two components from X	2@ transfer price
(ii) Other variable costs per unit	₹ 375
Fixed costs per production period	₹ 13,50,000
Demand per production period	10,000 units
Capacity per production period	10,000 units

The Group Transfer Pricing Policy stipulates that

Transfers must be at opportunity cost.

Y must buy the components from X.

X must satisfy the demand from Y before making external sales.

Required

(i) Present figures showing the weighted average transfer price, per component transferred to Y and the total profits earned by X for each of the following levels of external demand of X:

External demand = 15,000 components

External demand = 19,000 components

External demand = 35,000 components

(ii) Compute Division Y's profits when Division X has each of the above levels of demand.

(Only relevant figures need to be discussed. A detailed profitability statement for each situation is not required).

Transportation Problem - Degeneracy

11. A project consists of four (4) major jobs, for which four (4) contractors have submitted tenders. The tender amounts, in thousands of rupees, are given in the each cell. The initial solution of the problem obtained by using Vogel's Approximation Method is given in the Table below:

Contractors	Job P	Job Q	Job R	Job S
A	112.50	100.00	127.50	167.50 $\boxed{1}$
B	142.50	105.00 $\boxed{1}$	157.50	137.50
C	122.50	130.00	120.00 $\boxed{1}$	160.00
D	102.50 $\boxed{1}$	112.50	150.00	137.50

Find the assignment, which minimizes the total cost of the project. Each contractor has to be awarded one job only.

Critical Path Analysis – Missing Figures and Network

12. 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

(i) Find??? Figures.

(ii) Draw the network.

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

PERT and CPM – Basic Concepts

13. State the validity of following statements along with the reasons:

    (i) Two activities have common predecessor and successor activities. So, they can have common initial and final nodes.

    (ii) In respect of any activity whether real or dummy, the terminal node should bear a number higher than the initial node number.

    (iii) The difference between the latest event time and the earliest event time is termed as free float.

    (iv) For every critical activity in a network, the earliest start and the earliest finish time as well as the latest finish time and the latest start time are the same.

    (v) The optimal duration of a project is the minimum time in which it can be completed.

    (vi) Resource leveling aims at smoothening of the resource usage rate without changing the project duration.

Simulation

14. An Investment Corporation wants to study the investment projects based on four factors: market demand in units, contribution per unit, advertising cost and the investment required. These factors are felt to be independent of each other. In analyzing a new consumer product, the corporation estimates the following probability distributions:

Demand (units)		Contribution per unit		Advertising Cost	
No.	Probability	₹	Probability	₹	Probability
10,000	0.20	25	0.25	50,000	0.22
20,000	0.25	35	0.30	60,000	0.33
30,000	0.30	45	0.35	70,000	0.44
40,000	0.25	55	0.10	80,000	0.01

The data for proposed investments are as follows:

Investment (₹)	50,00,000	55,00,000	60,00,000	65,00,000
Probability	0.10	0.30	0.45	0.15

Using simulation process, repeat the trials 5 times, compute the Return on Investment (ROI) for each trial and find the highest likely return.

Using the sequence (First 4 random numbers for the first trial, etc.)

09 24 85 07 84 38 16 48 41 73 54 57 92 07 99

64 65 04 78 72

Application of Learning Curve in Standard Costing

15. Aldi International Co. is a multiproduct firm and operates standard costing and budgetary control system. During the month of June firm launched a new product. An extract from performance report prepared by Sr. Accountant is as follows:

Particulars	Budget	Actual
Output	30 units	25 units
Direct Labour Hours	180.74 hrs.	118.08 hrs.
Direct Labour Cost	₹ 1,19,288	₹ 79,704

Sr. Accountant prepared performance report for new product on certain assumptions but later on he realized that this new product has similarities with other existing product of the company. Accordingly, the rate of learning should be 80% and that the learning would cease after 15 units. Other budget assumptions for the new product remain valid.

The original budget figures are based on the assumption that the labour has learning rate of 90% and learning will cease after 20 units, and thereafter the time per unit will be the same as the time of the final unit during the learning period, i.e. the 20th unit. The time taken for 1st unit is 10 hours.

Show the variances that reconcile the actual labour figures with revised budgeted figures in as much detail as possible.

Note:

The learning index values for a 90% and a 80% learning curve are −0.152 and −0.322 respectively.

[log 2 = 0.3010, log 3 = 0.47712, log 5 = 0.69897, log 7 = 0.8451, antilog of 0.6213 = 4.181, antilog of 0.63096 = 4.275]

Profitability Analysis

16. A company is planning to improve its profit level at least by 10% from the preliminary budget estimates of a profit of ₹32,80,000 for the coming year. It has worked out the following profit improvement plan:

    (i) In the year just concluded the sales of the company were 10% of the total market of 12,00,000 units. For the preparation of the original budget estimate, the same market demand and the same share of market for the company was envisaged. Now it has been estimated that the total market demand will increase by 18% and the company's market share will increase to 11% from the present level of 10%.

    (ii) The products are sold in two sizes - large and medium. The sales mix of each size was 50:50 so far. Now it is planned that the sales will be 40% of large and 60% of medium. The medium packs and large packs have a contribution of ₹ 10 and ₹ 8 per pack respectively. The budget proposes to raise the price in such a manner that the contribution per pack will increase by ₹ 0.60 for each size.

(iii) There will be an additional expenditure on sales promotion worth ₹78,000.

(iv) The company proposes to save ₹9,000 by saving on interest cost in the coming year by better financial management.

Required

Draw a profit improvement plan in financial terms and spell out separately the effect of various factors on profit.

SUGGESTED ANSWERS/ HINTS

1. (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*

2. (i) Total Contribution Statement

Statement Showing 'Total Contribution' for remaining two phases

Particulars	**Maturity**		**Decline**
Weeks	31 - 50	51 - 70	71 - 110
Number of units Produced and Sold	22,000	22,000	22,000

Selling Price per unit (₹)	450	450	300
Unit Variable Cost (₹)	225	188	225
Unit Contribution (₹)	225	262	75
Total Contribution (₹)	49,50,000	57,64,000	16,50,000

(ii) Pricing Strategy for Product α^3

ORIL is following the skimming price strategy that's why it has planned to launch the product α^3 initially with high price tag.

A skimming strategy may be recommended when a firm has incurred large sums of money on research and development for a new product.

In the question, ORIL has incurred a huge amount on research and development. Also, it is very difficult to start with a low price and then raise the price. Raising a low price may annoy potential customers.

Price of the product α^3 is decreasing gradually stage by stage. This is happening because ORIL wants to tap the mass market by lowering the price.

(iii) Possible reasons for the changes in cost during the life cycle of the product 'α^3**'**

Product life cycle costing involves tracing of costs and revenues of each product over several calendar periods throughout their entire life cycle. Possible reasons for the changes in cost during the life cycle of the product are as follows:

ORIL is expecting reduction in unit cost of the product α^3 over the life of product as a consequence of economies of scale and learning / experience curves.

Learning effect may be the possible reason for reduction in per unit cost if the process is labour intensive. When a new product or process is started, performance of worker is not at its best and learning phenomenon takes place. As the experience is gained, the performance of worker improves, time taken per unit reduces and thus his productivity goes up. The amount of improvement or experience gained is reflected in a decrease in cost.

Till the stage of maturity, ORIL is in the expansion mode. The ORIL may be able to take advantages of quantity discount offered by suppliers or may negotiate the price with suppliers.

Product α^3 has the least variable cost ₹188 in last phase of maturity stage; this is because a product which is in the mature stage may require less marketing support than a product which is in the growth stage so, there is a saving of marketing cost per unit.

Again, the cost per unit of the product α^3 jumps to ₹225 in decline stage. As soon as the product reaches its decline stage, the need or demand for the product disappear and quantity discount may not be available. Even ORIL may have to incur heavy marketing expenses for stock clearance.

Workings:

Statement of Cumulative Sales along with Sales Price and Variable Cost

Weeks	Demand per week	Total Sales	Cumulative Sales	Selling Price per unit (₹)	Variable Cost per unit (₹)
1 - 10	220	2,200	2,200	750	375
11 - 20	550	5,500	7,700	600	300
21 - 30	825	8,250	15,950	525	300
31 - 50	1,100	22,000	37,950	450	225
51 - 70	1,100	22,000	59,950	450	188
71 - 80	880	8,800	68,750	300	225
81 - 90	660	6,600	75,350	300	225
91 - 100	440	4,400	79,750	300	225
101 - 110	220	2,200	81,950	300	225

3. Primary activities are the activities that are directly involved in transforming inputs into outputs and delivery and after-sales support to output. Following are the primary activities in the value chain of Sinopec Ltd:

(i) **Inbound Logistics**: These activities are related to the material handling and warehousing. It also covers transporting raw material from the supplier to the place of processing inside the factory.

(ii) **Operations:** These activities are directly responsible for the transformation of raw material into final product for the delivery to the consumers.

(iii) **Outbound Logistics:** These activities are involved in movement of finished goods to the point of sales. Order processing and distribution are major part of these activities.

(iv) **Marketing and Sales:** These activities are performed for demand creation and customer solicitation. Communication, pricing and channel management are major part of these activities.

(v) **Service:** These activities are performed after selling the goods to the consumers. Installation, repair and parts replacement are some examples of these activities.

4. **Workings**

Statement Showing 'Inventory Holding Cost' under Current System

Particulars		Jan	Feb	Mar	Apr	May	Jun
Opening Inventory*	(A)	---	650	690	430	880	1,030
Add: Production*		3,800	3,800	3,800	3,800	3,800	3,800
Less: Demand*		3,150	3,760	4,060	3,350	3,650	4,830
Closing Inventory*	(B)	650	690	430	880	1,030	-

Average Inventory $\left(\frac{A+B}{2}\right)$	325	670	560	655	955	515
Inventory Holding Cost @ ₹70	22,750	46,900	39,200	45,850	66,850	36,050

(*) *in terms of standard labour hours*

Inventory Holding Cost *for the six months* = ₹2,57,600

(₹ 22,750 + ₹ 46,900 + ₹ 39,200 + ₹ 45,850 + ₹ 66,850 + ₹ 36,050)

Calculation of Relevant Overtime Cost under JIT System

Particulars	Jan	Feb	Mar	Apr	May	Jun
Demand*	3,150	3,760	4,060	3,350	3,650	4,830
Production*	3,150	3,760	4,060	3,350	3,650	4,830
Normal Availablility*	3,800	3,800	3,800	3,800	3,800	3,800
Shortage (=Overtime*) (C)	---	---	260	----	----	1,030
Actual Overtime Hours $\left(\frac{C}{0.95}\right)$	---	---	273.68	----	----	1,084.21
Overtime Payment @ ₹159.50 [110+45%]	---	---	43,652	----	----	1,72,931

(*) *in terms of standard labour hours*

Total Overtime payment = ₹ 2,16,583

(₹ 43,652 + ₹ 1,72,931)

Therefore, saving in JIT system = ₹ 2,57,600 – ₹ 2,16,583 = ₹ 41,017

Comments

Though YPL is saving ₹41,017 by changing its production system to Just-in-time but it has to consider other factors as well before taking any final call which are as follows:-

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

(ii) To remove any quality issues, the engineering staff must visit supplier's sites and examine their processes, not only to see if they can reliably ship high-quality parts but also to provide them with engineering assistance to bring them up to a higher standard of product.

(iii) YPL should also aim to improve quality at its process and design levels with the purpose of achieving "Zero Defects" in the production process.

(iv) YPL should also keep in mind the efficiency of its work force. YPL must ensure that labour's learning curve has reached at steady rate so that they are capable of performing a variety of operations at effective and efficient manner. The workforce must be completely retrained and focused on a wide range of activities.

5. (i) Statement of Profitability of Z Ltd.

	Products (Amount in ₹)				
	Alpha	**Beta**	**Gamma**	**Theta**	**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 'Alpha' = ₹ 26,00,000

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

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

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

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

$= ₹27,65,957.45$

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 'Alpha' 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	Alpha	Beta	Gamma	Theta
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)

6. **Computation of Contribution per Key Factor(s) for Various Products**

Particulars	Products		
	P	Q	R
Selling Price p. u. (₹)	500	400	800
Variable Cost p. u. (₹):			
Material	400 (₹20 × 20 Kg.)	240 (₹20 × 12 Kg.)	600 (₹20 × 30 Kg.)
Machine Charge	60 (₹20 × 3 hrs)	100 (₹ 20 × 5 hrs)	80 (₹20 × 4 hrs)
Total Variable Cost p. u. (₹)	460	340	680
Contribution p. u. (₹)	40	60	120
Ranking	**III**	**II**	**I**
Requirement of Material (Kg.)	20	12	30

Contribution per Kg. (₹)	2.00	5.00	4.00
Ranking	**III**	**I**	**II**
Requirement of Machine Hours (Hrs.)	3	5	4
Contribution *per hour* (₹)	13.33	12.00	30.00
Ranking	**II**	**III**	**I**

It is clear from the above ranking(s):-

I. Contribution per Unit is maximum in case of product Q & R.

II. Contribution per Kg. of Raw Material also maximum in case of product Q & R.

III. Contribution per Machine Hour is maximum in case of product P & R.

So product R is common in all cases and priority shall be given for production of 'R'. Balance resources should be divided between other two products P & Q.

Statement Showing Balance Resources for Product P & Q

Resources	Maximum Availability (a)	Maximum Production R (b)	Consumption of Resources p.u. (c)	Total Cons. (d) = (b) x (c)	Balance (a) - (d)
Material	50,000 Kg.	750	30 Kg.	22,500 Kg.	27,500 Kg.
Machine Hrs.	9,200 Hrs.	750	4 Hrs.	3,000 Hrs.	6,200 Hrs.

The production of P & Q may be calculated with the help of following equations by utilizing balance resources: -

$$20P + 12Q = 27,500 \quad \ldots(i)$$

$$3P + 5Q = 6,200 \quad \ldots(ii)$$

Then,

$$30P + 18Q = 41,250$$

equation (i) multiplied by 1.5

$$30P + 50Q = 62,000$$

equation (ii) multiplied by 10

$$- \quad - \quad -$$

$$-32Q = -20,750$$

$$Q = 648.43 \text{ i.e. } 648 \text{ units}$$

Putting the value of Y in equation (ii)

$$3P + (5 \times 648) = 6,200$$

Or $3P = 2,960$

Or $P = 986$ units

So the of Product Mix is

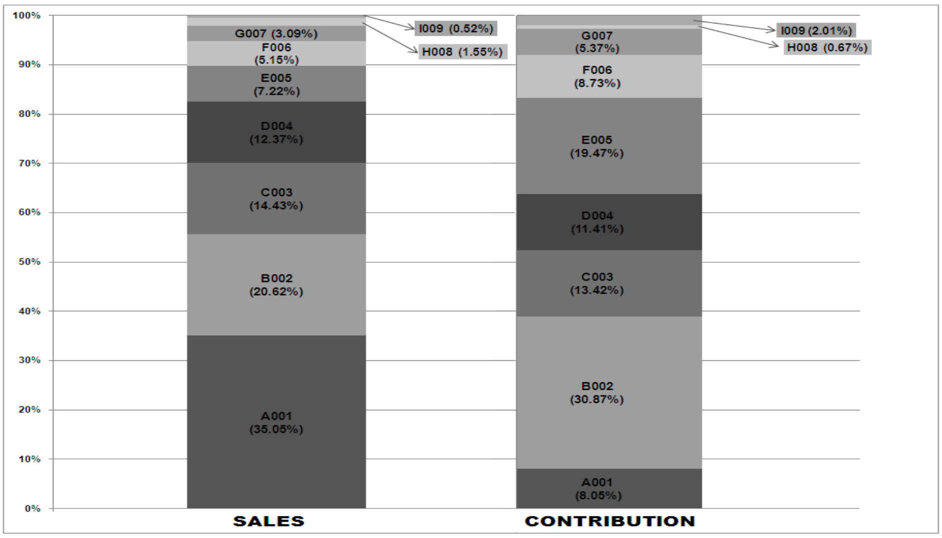
P= 986 units; Q = 648 units; R = 750 units

7. Statement Showing 'Pareto Analysis'

Model	Sales (₹'000)	% of Total Sales	Cumulative Total	Model	Cont. (₹'000)	% of Total Cont.	Cumulative Total %
Pareto Analysis Sales				Pareto Analysis Contribution			
A001	5,100	35.05%	35.05%	B002	690	30.87%	30.87%
B002	3,000	20.62%	55.67%	E005	435	19.47%*	50.34%
C003	2,100	14.43%	70.10%	C003	300	13.42%	63.76%
D004	1,800	12.37%	82.47%	D004	255	11.41%	75.17%
E005	1,050	7.22%	89.69%	F006	195	8.73%*	83.90%
F006	750	5.15%	94.84%	A001	180	8.05%	91.95%
G007	450	3.09%	97.93%	G007	120	5.37%	97.32%
H008	225	1.55%	99.48%	I009	45	2.01%	99.33%
I009	75	0.52%	100.00%	H008	15	0.67%	100.00%
	14,550	100.00%			2,235	100.00%	

(*) *Rounding - off difference adjusted.*

Diagram Showing 'Sales and Contribution' (NOT COMPULSORY)



☞

This Diagram is shown for **better understanding** of the concept.

Recommendations

Pareto Analysis is a rule that recommends focus on most important aspects of the decision making in order to simplify the process of decision making. The very purpose of this analysis is to direct attention and efforts of management to the product or area where best returns can be achieved by taking appropriate actions.

Pareto Analysis is based on the 80/20 rule which implies that 20% of the products account for 80% of the revenue. But this is not the fixed percentage rule; in general business sense it means that a few of the products, goods or customers may make up most of the value for the firm.

In present case, five models namely A001, B002, C003, D004 account for 80% of total sales where as 80% of the company's contribution is derived from models B002, E005, C003, D004 and F006.

Models B002 and E005 together account for 50.34% of total contribution but having only 27.84% share in total sales. So, these two models are the key models and should be the top priority of management. Boths C003 and D004 are among the models giving 80% of total contribution as well as 80% of total sales so; they can also be clubbed with B002 and E005 as key models. Management of the company should allocate maximum resources to these four models.

Model F006 features among the models giving 80%of total contribution with relatively lower share in total sales. Management should focus on its promotional activities.

Model A001 accounts for 35.05% of total sales with only 8.05% share in total contribution. Company should review its pricing structure to enhance its contribution.

Models G007, H008 and I009 have lower share in both total sales as well as contribution. Company can delegate the pricing decision of these models to the lower levels of management, thus freeing themselves to focus on the pricing decisions for key models.

8 (i) **Workings:**

Statement Showing Total Variable Cost *for the year*

Particulars	**Amount (₹)**
Estimated Sales Revenue	3,97,80,000
Less: Desired Profit Margin on Sale @ 20%	79,56,000
Estimated Total Cost	3,18,24,000
Less: Fixed Selling and Distribution Overheads	7,20,000
Total Variable Cost	3,11,04,000

Statement Showing Variable Cost per unit

Particulars	Variable Cost p.u. (₹)
Direct Materials:	
W: 6 Kg. @ ₹16 per Kg.	96
X: 3 Kg. @ ₹10 per Kg.	30
Labour Cost:	
Machine Shop: 4 hrs. @ ₹14 per hour	56
Assembly Shop: 2 hrs. @ ₹7 per hour	14
Factory Overheads: 20% of (₹56 + ₹14)	14
Variable Selling & Distribution Expenses	6
Total Variable Cost *per unit*	216

Number of Units Sold = Total Variable Cost / Variable Cost *per unit*
= ₹3,11,04,000 / ₹216
= 1,44,000 units

Selling Price *per unit* = Total Sales Value / Number of Units Sold
= ₹3,97,80,000 / 1,44,000 units
= ₹276.25

(ii) Production Budget (units)

Particulars	Units
Budgeted Sales	1,44,000
Add: Closing Stock	30,000
Total Requirements	1,74,000
Less: Opening Stock	25,000
Required Production	1,49,000

(iii) Materials Purchase Budget (Kg.)

Particulars	Material W	Material X
Requirement for Production	8,94,000 (1,49,000 units × 6 Kg.)	4,47,000 (1,49,000 units × 3 Kg.)
Add: Desired Closing Stock	80,000	55,000
Total Requirements	9,74,000	5,02,000
Less: Opening Stock	75,000	40,000
Quantity *to be purchased*	8,99,000	4,62,000

9. COMPUTATION OF VARIANCES

Material Usage Variance = Standard Price × (Standard Quantity – Actual Quantity)

= ₹4.00 × (18,000* Kgs. – 20,000 Kgs.)

= ₹ 8,000 (A)

$*\left(1{,}800 \text{ units} \times \frac{20{,}000 \text{ Kgs.}}{2{,}000 \text{ units}}\right)$

Labour Efficiency Variance = Standard Rate × (Standard Hours – Actual Hours)

= ₹8.00 × (14,400* hrs. – 14,800 hrs.)

= ₹3,200 (A)

$*\left(1{,}800 \text{ units} \times \frac{16{,}000 \text{ hrs.}}{2{,}000 \text{ units}}\right)$

Variable Overhead Efficiency Variance

= Standard Variable Overheads for Production – Budgeted Variable Overheads for Actual hours

= (14,400 hrs. × Rs.3.00) – (₹3.00 × 14,800 hrs.)

= ₹1,200 (A)

Fixed Overhead Volume Variance

= Absorbed Fixed Overheads – Budgeted Fixed Overheads

= (14,400 hrs. × ₹3.00) – (16,000 hrs. × ₹3.00)

= ₹4,800 (A)

Sales Margin Volume Variance

= Standard Margin – Budgeted Margin

= (1,800 units × ₹56.00) – (2,000 units × ₹56.00)

= ₹11,200 (A)

Sales Contribution Volume Variance

= Standard Contribution – Budgeted Contribution

= (1,800 units × ₹80.00) – (2,000 units × ₹80.00)

= ₹16,000 (A)

Statement Showing "Reconciliation Between Budgeted Profit & Actual Profit"

Particulars	Conv. Method (₹)	Relevant Cost Method (₹)		
		Scarce Material	Scarce Labour	No Scarce Inputs
Budgeted Profit (2,000 units × ₹56)	1,12,000	1,12,000	1,12,000	1,12,000
Sales Volume Variance	11,200 (A)	NIL*	12,000$ (A)	16,000 (A)
Material Usage Variance	8,000 (A)	24,000 (A)	8,000 (A)	8,000 (A)
Labour Efficiency Variance	3,200 (A)	3,200 (A)	7,200 (A)	3,200 (A)
Variable Overhead Effi. Variance	1,200 (A)	1,200 (A)	1,200 (A)	1,200 (A)
Fixed Overhead Volume Variance	4,800 (A)	N.A.#	N.A.#	N.A.#
Actual Profit	**83,600**	**83,600**	**83,600**	**83,600**

NOTES

Scarce Material

Based on conventional method, direct material usage variance is ₹8,000 (A) i.e. 2,000 Kg. × ₹4. In this situation material is scarce, and, therefore, material cost variance based on relevant cost method should also include contribution lost per unit of material. Excess usage of 2,000 Kg. leads to lost contribution of ₹16,000 i.e. 2,000 Kgs. × ₹8. **Total material usage variance based on relevant cost method, when material is scarce will be: ₹8,000 (A) + ₹16,000 (A) = ₹24,000 (A).** Since labour is not scarce, labour variances are identical to conventional method.

Excess usage of 2,000 Kgs. leads to loss of contribution from 200 units i.e. ₹16,000 (200 units × ₹80). It is not the function of the sales manager to use material efficiently. Hence, loss of contribution from 200 units should be excluded while computing sales contribution volume variance.

(*)→

Therefore, sales contribution volume variance, when materials are scarce will be NIL i.e. ₹16,000 (A) - ₹16,000 (A).

Scarce Labour

Material is no longer scarce, and, therefore, the direct material variances are same as in conventional method. In conventional method, excess labour hours used are: 14,400 hrs. – 14,800 hrs. = 400 hrs. Contribution lost per hour = ₹10. Therefore, total contribution lost, when labour is scarce will be: 400 hrs. × ₹10 = ₹4,000. **Therefore, total labour efficiency variance, when labour hours are scarce will be ₹7,200 (A) i.e. ₹3,200 (A) + ₹4,000 (A).**

Excess usage of 400 hrs. leads to loss of contribution from 50 units i.e. ₹4,000 (50 units × ₹80). It is not the function of the sales manager to use labour hours efficiently. Hence, loss of contribution from 50 units should be excluded while computing sales contribution volume Variance.

($)→

Therefore, sales contribution volume variance, when labour hours are Scarce will be ₹12,000 (A) i.e. ₹16,000 (A) - ₹4,000 (A).

Fixed Overhead Volume Variance

(#) →

The fixed overhead volume variance does not arise in marginal costing system. In absorption costing system, it represents the value of the under or over absorbed fixed overheads due to change in production volume. When marginal costing is in use there is no overhead volume variance, because marginal costing does not absorb fixed overheads.

10. (i) Computation of Weighted Average Transfer Price

Particulars	External Demand 15,000 Components	External Demand 19,000 Components	External Demand 35,000 Components
Component's Transfer Price (Base)	Variable Cost	Variable Cost *plus* Opportunity Cost for 4,000 Components	Variable Cost *plus* Opportunity Cost for 20,000 Components
Variable Cost	₹157.00	₹157.00	₹157.00
Opportunity Cost	0	₹28.60 $\left(\frac{4,000}{20,000}\times ₹143\right)$	₹143.00 $\left(\frac{20,000}{20,000}\times ₹143\right)$
Transfer Price	₹157.00	₹185.60	₹300.00

Opportunity Cost for a Component is the Contribution *forgone* by not Selling it to the market.

Contribution = Market Selling Price – Variable Cost

= ₹300 – ₹157 = ₹143

Statement Showing Profitability of Division- X

Particulars	External Demand 15,000 Components (₹)	External Demand 19,000 Components (₹)	External Demand 35,000 Components (₹)
Sales :			
Division-Y	31,40,000	37,12,000	60,00,000

	(₹157 × 20,000)	(₹185.60 × 20,000)	(₹300 × 20,000)
Market	45,00,000 (₹300 × 15,000)	45,00,000 (₹300 × 15,000)	45,00,000 (₹300 × 15,000)
Total Revenue	76,40,000	82,12,000	1,05,00,000
Less: Variable Cost (₹157 × 35,000)	54,95,000	54,95,000	54,95,000
Less: Fixed Cost	20,62,000	20,62,000	20,62,000
Profit	83,000	6,55,000	29,43,000

(ii) Statement Showing Profitability of Division- Y

Particulars	**External Demand 15,000 Components (₹)**	**External Demand 19,000 Components (₹)**	**External Demand 35,000 Components (₹)**
Selling Price *per unit*	1,200.00	1,200.00	1,200.00
Less: Variable Cost *per unit:*	314.00 (₹157 × 2)	371.20 (₹185.60 × 2)	600.00 (₹300 × 2)
Component –X			
Others	375.00	375.00	375.00
Contribution *per unit*	511.00	453.80	225.00
No. of units	10,000	10,000	10,000
Total Contribution	51,10,000	45,38,000	22,50,000
Less: Fixed Cost	13,50,000	13,50,000	13,50,000
Profit	37,60,000	31,88,000	9,00,000

11.

☞

Once the initial basic feasible solution is done, we have to do the optimality test. If it satisfy the condition that number of allocation is equal to m+n-1 where m= number of rows, n= number of columns. If allocation is less than m+n-1, then the problem shows degenerate situation. In that case we have to allocate an infinitely small quantity (e) in least cost and independent cell. Independent cells in Transportation Problems mean the cells which do not form a closed loop with occupied cells.

The table obtained after using VAM contains 4 occupied cells against the required number of 4 + 4 – 1 = 7, hence the solution is degenerate.

To remove degeneracy, a letter 'e' is placed in three independent cells. The problem for test of optimality is reproduced in table below:

Contractors	Job P	Job Q	Job R	Job S
A	112.50 $\boxed{e}$	100.00 $\boxed{e}$	127.50	167.50 $\boxed{1}$
B	142.50	105.00 $\boxed{1}$	157.50	137.50
C	122.50 $\boxed{e}$	130.00	120.00 $\boxed{1}$	160.00
D	102.50 $\boxed{1}$	112.50	150.00	137.50

☞

Alternatively, **'e'** can also be allocated to cell C_{42} instead of C_{11}.

Now total number of allocations become equal to m + n -1 i.e. 7. This solution is tested for optimality.

(u_i + v_j) Matrix for Allocated / Unallocated Cells

					u_i
	112.50	100.00	110.00	167.50	0
	117.50	105.00	115.00	172.50	5.00
	122.50	110.00	120.00	177.50	10.00
	102.50	90.00	100.00	157.50	-10.00
v_j	112.50	100.00	110.00	167.50	

Now we calculate $\Delta_{ij} = C_{ij} - (u_i + v_j)$ for non basic cells which are given in the table below-

Δ_{ij} Matrix

		17.50	
25.00		42.50	-35.00
	20.00		-17.50
	22.50	50.00	-20.00

Since all values of Δ_{ij} are not positive, the solution given above is not optimal. Let us include the cell with highest negative Δ_{ij} which is C_{24} as a basic cell and try to improve the solution. The reallocated solution is given below which is tested for optimality-

e	e +1		1 -1
	1 -1		**+1**
e		1	
1			

Revised allocations (improved initial solution) are as follows-

Contractors	Job P	Job Q	Job R	Job S
A	112.50 [e]	100.00 [1]	127.50	167.50
B	142.50	105.00 [**e**]	157.50	137.50 [1]
C	122.50 [e]	130.00	120.00 [1]	160.00
D	102.50 [1]	112.50	150.00	137.50

☞

Again there is a situation of degenracy to remove this situation a new **'e'** has been allocated to least cost independent cell **C_{22}**.

(u_i + v_j) Matrix for Allocated / Unallocated Cells

				u_i
112.50	100.00	110.00	132.50	0
117.50	105.00	115.00	137.50	5.00

	122.50	110.00	120.00	142.50	10.00
	102.50	90.00	100.00	122.50	-10.00
v_j	112.50	100.00	110.00	132.50	

Now we calculate $\Delta_{ij} = C_{ij} - (u_i + v_j)$ for non basic cells which are given in the table below-

Δ_{ij} Matrix

		17.50	35.00
25.00		42.50	
	20.00		17.50
	22.50	50.00	15.00

Since all the entries in the above Δ_{ij} Matrix table are non-negative, this solution is optimal. The optimal assignment is given below-

Contractor	Job	Cost of Project
A	Q	100.00
B	S	137.50
C	R	120.00
D	P	102.50
	Total	460.00

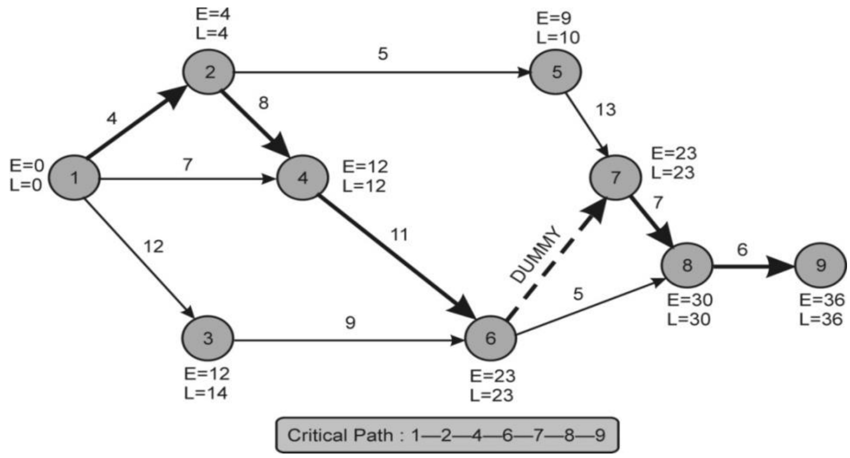
12. (i) Calculation of Missing Figures

Statement Showing 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

Activity	Duration	EST	EFT	LST	LFT	Total Float
	D_{ij}	E_i	$E_i + D_{ij}$	$L_j - D_{ij}$	L_j	LST− EST
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) Paths with their corresponding durations

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

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

13. (i) Invalid

Reason: As per the rules of network construction, parallel activities between two events, without intervening events, are prohibited. Dummy activities are needed when two or more activities have same initial and terminal events. Dummy activities do not consume time or resources.

(ii) Valid

Reason: As per the conventions adopted in drawing networks, the head event or terminal node always has a number higher than that of initial node or tail event.

(iii) Invalid

Reason: The difference between the latest event time and the earliest event time is termed as slack of an event. Free float is determined by subtracting head event slack from the total float of an activity.

(iv) Invalid

Reason: For every critical activity in a network, the earliest start time and the latest start time is same and also the earliest finish time and the latest finish time is same.

(v) Invalid

Reason: The optimum duration is the time period in which the total cost of the project is minimum.

(vi) Valid

Reason: Resource leveling is a network technique used for reducing the requirement of a particular resource due to its paucity or insufficiency within a constraint on the project duration. The process of resource leveling utilize the large floats available on non-critical activities of the project and cuts down the demand of the resource.

14. Allocation of Random Numbers

Demand (units)

Units	Probability	Cumulative Probability	Random Nos.
10,000	0.20	0.20	00 – 19
20,000	0.25	0.45	20 – 44
30,000	0.30	0.75	45 – 74
40,000	0.25	1.00	75 − 99

Contribution per unit

₹	Probability	Cumulative Probability	Random Nos.
25	0.25	0.25	00 – 24
35	0.30	0.55	25 – 54
45	0.35	0.90	55 – 89
55	0.10	1.00	90 − 99

Advertising Cost

₹	Probability	Cumulative Probability	Random Nos.
50,000	0.22	0.22	00 – 21
60,000	0.33	0.55	22 – 54
70,000	0.44	0.99	55 – 98
80,000	0.01	1.00	99 − 99

Investment

₹	Probability	Cumulative Probability	Random Nos.
50,00,000	0.10	0.10	00 – 09
55,00,000	0.30	0.40	10 – 39
60,00,000	0.45	0.85	40 – 84
65,00,000	0.15	1.00	85 – 99

Simulation Table

Random Number	Demand Units	Contribution Per unit (₹)	Adv. Cost (₹)	Return (₹)	Investment (₹)	Return on Investment
09, 24, 85, 07	10,000	25	70,000	1,80,000	50,00,000	3.60%
84, 38, 16, 48	40,000	35	50,000	13,50,000	60,00,000	22.50%
41, 73, 54, 57	20,000	45	60,000	8,40,000	60,00,000	14.00%
92, 07, 99, 64	40,000	25	80,000	9,20,000	60,00,000	15.33%
65, 04, 78, 72	30,000	25	70,000	6,80,000	60,00,000	11.33%

Highest Likely Return is 22.50% relating to trial 2.

15. **Working Note**

The usual learning curve model is

$$y = ax^b$$

Where

y = Average time per unit for x units

a = Time required for first unit

x = Cumulative number of units produced

b = Learning coefficient

W.N.1

Time required for first 15 units based on revised learning curve of 80% (when the time required for the first unit is 10 hours)

$$y = 10 \times (15)^{-0.322}$$
$$\log y = \log 10 - 0.322 \times \log 15$$
$$\log y = \log 10 - 0.322 \times \log (5 \times 3)$$
$$\log y = \log 10 - 0.322 \times [\log 5 + \log 3]$$
$$\log y = 1 - 0.322 \times [0.69897 + 0.47712]$$
$$\log y = 0.6213$$
$$y = \text{antilog of } 0.6213$$
$$y = 4.181 \text{ hours}$$
$$\text{Total time for 15 units} = 15 \text{ units} \times 4.181 \text{ hours}$$
$$= 62.72 \text{ hours}$$

Time required for first 14 units based on revised learning curve of 80% (when the time required for the first unit is 10 hours)

$$y = 10 \times (14)^{-0.322}$$
$$\log y = \log 10 - 0.322 \times \log 14$$
$$\log y = \log 10 - 0.322 \times \log (2 \times 7)$$
$$\log y = \log 10 - 0.322 \times [\log 2 + \log 7]$$
$$\log y = 1 - 0.322 \times [0.3010 + 0.8451]$$
$$\log y = 0.63096$$
$$y = \text{antilog of } 0.63096$$
$$y = 4.275 \text{ hrs}$$
$$\text{Total time for 14 units} = 14 \text{ units} \times 4.275 \text{ hrs}$$
$$= 59.85 \text{ hrs}$$

Time required for 25 units based on revised learning curve of 80% (when the time required for the first unit is 10 hours)

Total time for first 15 units	=	62.72 hrs
Total time for next 10 units	=	28.70 hrs [(62.72 − 59.85) hours × 10 units]
Total time for 25 units	=	62.72 hrs + 28.70 hrs
	=	91.42 hrs

W.N.2

Computation of Standard and Actual Rate

Standard Rate $= \dfrac{₹1,19,288}{180.74 \text{ hrs.}}$

$=$ ₹ 660.00 per hr.

Actual Rate $= \dfrac{₹79,704}{118.08 \text{ hrs.}}$

$=$ ₹ 675.00 per hr.

W.N.3

Computation of Variances

Labour Rate Variance = Actual Hrs × (Std. Rate – Actual Rate)

= 118.08 hrs × (₹660.00 – ₹675.00) = ₹1,771.20 (A)

Labour Efficiency Variance = Std. Rate × (Std. Hrs – Actual Hrs)

= ₹660 × (91.42 hrs – 118.08 hrs)

= ₹17,595.60 (A)

Statement of Reconciliation (Actual Figures Vs Budgeted Figures)

Particulars	₹
Actual Cost	79,704.00
Less: Labour Rate Variance (Adverse)	1,771.20
Less: Labour Efficiency Variance (Adverse)	17,595.60
Budgeted Labour Cost (Revised)*	60,337.20

Budgeted Labour Cost (Revised)*

= Std. Hrs. × Std. Rate

= 91.42 hrs. × ₹660

= ₹ 60,337.20

16. **Statement Showing Change in Profit**

Particulars	Large (₹)	Medium (₹)	Total (₹)
I. Effect of Product Mix Changes			
Revised Estimated Sales Quantity (Ratio 40:60)	62,304	93,456	1,55,760
Revised Estimated Sales Quantity (Ratio 50:50)	77,880	77,880	1,55,760
Difference in Sales Quantity	(15,576)	15,576	NIL
Contribution Effect Thereon @ ₹8.60 and ₹10.60	(1,33,953.60)	1,65,105.60	**31,152**

II Effect of Volume Change			
Revised Estimate of Sales Quantity (50:50)	77,880	77,880	
Original Estimate of Sales Quantity (50:50)	60,000	60,000	
Difference in Sales Quantity	17,880	17,880	35,760
Contribution Effect Thereon @ ₹8 and ₹10	1,43,040	1,78,800	**3,21,840**
III. Effect of Price Change			
Revised Estimate of Sales Quantity (Ratio 40:60)	62,304	93,456	1,55,760
Difference in Price p.u.	0.60	0.60	0.60
Contribution Effect	37,382.40	56,073.60	**93,456**
IV. Effect of Expenses			
Sales Promotion Expenses			**(78,000)**
Savings in Interest			**9,000**
Overall Increase in Profit			**3,77,448**

Total Improvement in Profit ₹3,77,448 (11.51%).

Workings

Budget for Original and Revised Contribution

Particulars	Original Budget Estimate		Revised Estimate	
	Description	(₹)	Description	(₹)
Market- Sales Quantity	12,00,000 units		14,16,000	
Company's Share	1,20,000 units (10% of total)		1,55,760 units (11% of total)	
Sales Quantity				
Large	60,000 units (50% of mix)		62,304 (40% of mix)	
Medium	60,000 units (50% of mix)		93,456 (60% of mix)	
Contribution Earned				
Large	60,000 units × ₹8	4,80,000	62,304 units × ₹8.60	5,35,814.40
Medium	60,000 units × ₹10	6,00,000	93,456 units × ₹10.60	9,90,633.60
Effect of Expenses				
Sales Promotion		---		-78,000
Interest		---		9,000
Revised Contribution		10,80,000		14,57,448

☞

This question can also be solved by computing Sales Contribution Price Variance, Sales Contribution Mix Variance, Market Size Variance, Market Share Variance.

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

QUESTIONS

Concepts of Governance and Management of Information Systems

1. List out the key functions of the IT Steering Committee.
2. 'IT has to provide critical inputs to meet the information needs of all the stakeholders'. Define IT Governance and list out its benefits.
3. Briefly describe the key management practices provided by COBIT 5 for ensuring IT compliances.

Information System Concepts

4. 'There are various constraints, which come in the way of operating a Management Information Systems (MIS)'. Explain any four such constraints in brief.
5. "A business manager should have adequate knowledge to operate Information Systems effectively". Elaborate this statement.
6. Discuss few examples of business applications of Expert Systems.

Protection of Information Systems

7. Discuss Application and Monitoring System Access Controls.
8. Discuss some Financial Controls Techniques.
9. Discuss about User Access Resource Management Controls.

Business Continuity Planning and Disaster Recovery Planning

10. Why do you think an organization needs to maintain a BCP Manual?
11. What does the methodology emphasize upon while developing a Business Continuity Plan (BCP)?
12. Explain the phase "Business Impact Assessment (BIA)" under Business Continuity plan methodology?

Acquisition, Development and Implementation of Information Systems

13. Discuss the roles of the following during SDLC (System Development Life Cycle).
    (a) Steering Committee
    (b) Database Administrator
    (c) Project Leader
    (d) Information Systems (IS) Auditor

14. Discuss the activities involved during the System Designing phase under SDLC (Systems Development Life Cycle).
15. Discuss the categories of tests that a programmer performs on a program unit during the phase System Testing under System Development Life Cycle (SDLC).

Auditing of Information Systems

16. As an auditor, what do you think are the disadvantages and limitations of using Continuous Audit Techniques?
17. Discuss the types of Managerial Controls and their scope, in brief.
18. Discuss Boundary Controls and their Audit Trails under Application Controls.

Information Technology Regulatory Issues

19. Identify and explain the Section of IT Act, 2000; that explains the situation(s) under which any computer or computer resources shall become liable to confiscation?
20. What do you understand by the term "IT Infrastructure Library (ITIL)"? Discuss its volumes in brief.

Emerging Technologies

21. Under Green Computing, discuss guidelines to conserve energy?
22. Discuss the limitations of Mobile Computing.
23. Discuss different instances of Infrastructure as a Service (IaaS) model in Cloud Computing.

Short Note Based Questions

24. Write short notes on following:
    (a) COBIT Components
    (b) Benefits of Office Automation Systems (OAS)
    (c) Examples of Segregation of Duties (SoD)
    (d) Features of Agile Manifesto
    (e) Detection Risk

Questions based on Case Study

25. ABC is a company that provides tourism related services worldwide to its customers worldwide. Though its operations are all online, however, the current information infrastructure is not sufficient to sustain itself in the competitive environment. Thus, the management realizes that they need to develop a "Smart Tourism – IT infrastructure", which involves development of semantic based information system using Web 3.0 technologies, in cloud and mobile computing environment, for which a high-level IT

Steering Committee comprising IS Auditor as one of the members is appointed. The company also intends to develop a document for Disaster Recovery Plan after upgrading information infrastructure.

Read the above and answer the following questions:

(a) What are the main objectives that an organization can achieve through Information Systems Auditing?

(b) What are the various areas to be incorporated in the Disaster Recovery Planning Document? Indicate any ten such areas.

(c) What do you mean by Web 3.0 Technology? Explain briefly two major components of Web 3.0 technology.

SUGGESTED ANSWERS/HINTS

1. The key functions of the IT Steering Committee would include the following:

- To ensure that long and short-range plans of the IT department are in tune with enterprise goals and objectives;
- To establish size and scope of IT function and sets priorities within the scope;
- To review and approve major IT deployment projects in all their stages;
- To approve and monitor key projects by measuring result of IT projects in terms of return on investment, etc.;
- To review the status of IS plans and budgets and overall IT performance;
- To review and approve standards, policies and procedures;
- To make decisions on all key aspects of IT deployment and implementation;
- To facilitate implementation of IT security within enterprise;
- To facilitate and resolve conflicts in deployment of IT and ensure availability of a viable communication system between IT and its users; and
- To report to the Board of Directors on IT activities on a regular basis.

2. **IT Governance:** IT Governance refers to the system in which directors of the enterprise evaluate, direct and monitor IT management to ensure effectiveness, accountability and compliance of IT.

Benefits of IT Governance are as follows:

- Increased value delivered through enterprise IT;
- Increased user satisfaction with IT services;

- Improved agility in supporting business needs;
- Better cost performance of IT;
- Improved management and mitigation of IT-related business risk;
- IT becoming an enabler for change rather than an inhibitor;
- Improved transparency and understanding of IT's contribution to the business;
- Improved compliance with relevant laws, regulations and policies; and
- More optimal utilization of IT resources.

3. COBIT 5 provides key management practices for ensuring IT compliance with external compliances as relevant to the enterprise. The practices are given as follows:

- **Identify External Compliance Requirements:** On a continuous basis, identify and monitor for changes in local and international laws, regulations, and other external requirements that must be complied with from an IT perspective.
- **Optimize Response to External Requirements:** Review and adjust policies, principles, standards, procedures and methodologies to ensure that legal, regulatory and contractual requirements are addressed and communicated. Consider industry standards, codes of good practice, and best practice guidance for adoption and adaptation.
- **Confirm External Compliance:** Confirm compliance of policies, principles, standards, procedures and methodologies with legal, regulatory and contractual requirements.
- **Obtain Assurance of External Compliance:** Obtain and report assurance of compliance and adherence with policies, principles, standards, procedures and methodologies. Confirm that corrective actions to address compliance gaps are closed in a timely manner.

4. Major constraints which come in the way of operating a Management Information System are as follows:

- Non-availability of experts, who can diagnose the objectives of the organization and provide a desired direction for installing operating system. This problem may be overcome by grooming internal staff, which should be preceded by proper selection and training.
- Experts usually face the problem of selecting the sub-system of MIS to be installed and operated upon. The criteria, which should guide the experts, depend upon the need and importance of a function for which MIS can be installed first.
- Due to varied objectives of business concerns, the approach adopted by experts for designing and implementing MIS is a non-standardized one.

- Non-availability of cooperation from staff is a crucial problem, which should be handled tactfully. This task should be carried out by organizing lecturers, showing films and also explaining to them the utility of the system. Besides this, some persons should also be involved in the development and implementation of the system.

5. To operate Information Systems (IS) effectively and efficiently, a business manager should have following knowledge about it:

- **Foundation Concepts –** It includes fundamental business, and managerial concepts e.g. 'what are components of a system and their functions', or 'what competitive strategies are required'.
- **Information Technologies (IT) –** It includes operation, development and management of hardware, software, data management, networks, and other technologies.
- **Business Applications –** It includes major uses of IT in business steps i.e. processes, operations, decision making, and strategic/competitive advantage.
- **Development Processes –** It comprise how end users and IS specialists develop and execute business/IT solutions to problems.
- **Management Challenges –** It includes 'how the function and IT resources are maintained' and utilized to attain top performance and build the business strategies.

6. Some of the business applications of Expert Systems are as follows:

- **Accounting and Finance -** It provides tax advice and assistance, helping with credit-authorization decisions, selecting forecasting models, providing investment advice.
- **Marketing -** It provides establishing sales quotas, responding to customer inquiries, referring problems to telemarketing centres, assisting with marketing timing decisions, determining discount policies.
- **Manufacturing -** It helps in determining whether a process is running correctly, analysing quality and providing corrective measures, maintaining facilities, scheduling job-shop tasks, selecting transportation routes, assisting with product design and faculty layouts.
- **Personnel -** It is useful in assessing applicant qualifications and assisting employees in filling out forms.
- **General Business -** It helps in assisting with project proposals, recommending acquisition strategies, educating trainees, and evaluating performance.

7. The Application and Monitoring System Access Controls are as follows:

- **Information access restriction:** The access to information is prevented by application specific menu interfaces, which limit access to system function. A user can access only to those items, s/he is authorized to access. Controls are implemented on the access rights of users. For example, read, write, delete, and execute. And ensure that sensitive output is sent only to authorized terminals and locations.

- **Sensitive system isolation:** Based on the critical constitution of a system in an enterprise, it may even be necessary to run the system in an isolated environment.

  Monitoring system access and use is a detective control, to check if preventive controls discussed so far are working. If not, this control will detect and report any unauthorized activities.

- **Event logging:** In Computer systems, it is easy and viable to maintain extensive logs for all types of events. It is necessary to review if logging is enabled and the logs are archived properly. An intruder may penetrate the system by trying different passwords and user ID combinations. All incoming and outgoing requests along with attempted access should be recorded in a transaction log. The log should record the user ID, the time of the access and the terminal location from where the request has been originated.
- **Monitor system use:** Based on the risk assessment, a constant monitoring of some critical systems is essential. Define the details of types of accesses, operations, events and alerts that will be monitored. The extent of detail and the frequency of the review would be based on criticality of operation and risk factors. The log files are to be reviewed periodically and attention should be given to any gaps in these logs.
- **Clock synchronization:** Event logs maintained across an enterprise network plays a significant role in correlating an event and generating report on it. Hence, the need for synchronizing clock time across the network as per a standard time is mandatory.

8. Financial Controls are generally defined as the procedures exercised by the system user personnel over source, or transactions origination, documents before system input. Some examples of financial control techniques are as below:

- **Authorization:** This entails obtaining the authority to perform some act typically accessing to such assets as accounting or application entries.
- **Budgets:** These estimates of the amount of time or money expected to be spent during a particular period, project, or event. The budget alone is not an effective control. Budgets must be compared with the actual performance, including isolating differences and researching them for a cause and possible resolution.
- **Cancellation of documents:** This marks a document in such a way to prevent its reuse. This is a typical control over invoices marking them with a “paid” or “processed” stamp or punching a hole in the document.
- **Dual control:** This entails having two people simultaneously access an asset. For example, the depositories of banks’ 24-hour teller machines should be accessed and

emptied with two people present, many people confuse dual control with dual access, but these are distinct and different. Dual access divides the access function between two people: once access is achieved, only one person handles the asset. With teller-machines, for example, two tellers would open the depository vault door together, but only one would retrieve the deposit envelopes.

- **Input/ Output verification:** This entails comparing the information provided by a computer system to the input documents. This is an expensive control that tends to be over-recommended by auditors. It is usually aimed at such non-monetary by dollar totals and item counts.
- **Safekeeping:** This entails physically securing assets, such as computer disks, under lock and key, in a desk drawer, file cabinet storeroom, or vault.
- **Sequentially numbered documents:** These are working documents with pre-printed sequential numbers, which enables the detection of missing documents.

9. The User Access Resource Management Controls are as follows:

- **User Registration:** Information about every user is documented. The following questions are to be answered:
  - o Why is the user granted the access?;
  - o Has the data owner approved the access?; and
  - o Has the user accepted the responsibility? etc. The de-registration process is also equally important.
- **Privilege management:** Access privileges are to be aligned with job requirements and responsibilities. For example, an operator at the order counter shall have direct access to order processing activity of the application system. S/he will be provided higher access privileges than others. However, misuse of such privileges could endanger the organization's information security. These privileges are to be minimal with respect to their job functions.
- **User password management:** Passwords are usually the default screening point for access to systems. Allocations, storage, revocation, and reissue of password are password management functions. Educating users is a critical component about passwords, and making them responsible for their password.
- **Review of user access rights:** A user's need for accessing information changes with time and requires a periodic review of access rights to check anomalies in the user's current job profile, and the privileges granted earlier.

10. An incident or disaster affecting critical business operations can strike at any time. Successful organizations need to maintain a comprehensive BCP Manual, which ensures process readiness, data and system availability to ensure business continuity. 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 is expected to anticipate various types of incident or disaster scenarios and provide reasonable assurance to senior management of enterprise about the capability of the enterprise to recover from any unexpected incident or disaster affecting business operations and continue to provide services with minimal impact.
- 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.

11. The methodology for developing a Business Continuity Plan (BCP) can be sub-divided into eight different phases; the extent of applicability of each phase must be tailored to the respective organization. The methodology emphasizes on the following:

- Providing management with a comprehensive understanding of the total efforts required to develop and maintain an effective recovery plan;
- Obtaining commitment from appropriate management to support and participate in the effort;
- Defining recovery requirements from the perspective of business functions;
- Documenting the impact of an extended loss to operations and key business functions;
- Focusing appropriately on disaster prevention and impact minimization, as well as orderly recovery;
- Selecting business continuity teams that ensure the proper balance required for plan development;
- Developing a business continuity plan that is understandable, easy to use and maintain; and
- Defining how business continuity considerations must be integrated into ongoing business planning and system development processes in order that the plan remains viable over time.

12. The Phase "Business Impact Assessment (BIA)" under Business Continuity Plan methodology enables the project team to:

- o identify critical systems, processes and functions;
- o assess the economic impact of incidents and disasters that result in a denial of access to systems services and other services and facilities; and

- o assess the "pain threshold," that is, the length of time business units can survive without access to systems, services and facilities.

The BIA Report should be presented to the Steering Committee. This report identifies critical service functions and the timeframes in which they must be recovered after interruption. The BIA Report should then be used as a basis for identifying systems and resources required to support the critical services provided by information processing and other services and facilities.

13. (a) Steering Committee: It is a special high power committee of experts to accord approvals for go-ahead and implementations. Some of the functions of Steering Committee are as follows:

- To provide overall directions and ensures appropriate representation of affected parties;
- To be responsible for all cost and timetables;
- To conduct a regular review of progress of the project in the meetings of steering committee, which may involve co-ordination and advisory functions; and
- To undertake corrective actions like rescheduling, re-staffing, change in the project objectives and need for redesigning.

(b) Database Administrator: The data in a database environment has to be maintained by a specialist in database administration so as to support the application program. The DBA handles multiple projects; ensures the integrity and security of information stored in the database and also helps the application development team in database performance issues. Inclusion of new data elements has to be done only with the approval of the database administrator.

(c) Project Leader: The project leader is dedicated to a project, who has to ensure its completion and fulfillment of objectives. S/he reviews the project status more frequently than a Project Manager and the entire project team reports to him/her.

(d) Information Systems (IS) Auditor: As a member of the team, IS Auditor ensures that the application development also focuses on the control perspective. S/he should be involved at the Design Phase and the final Testing Phase to ensure the existence and the operations of the Controls in the new software.

14. The System Designing phase under System Development Life Cycle (SDLC) include activities - Architectural Design; Design of the Data / Information Flow; Design of the Database; Design of the User-interface; Physical Design; and Design and acquisition of the hardware/system software platform', which are described briefly as follows:

- **Architectural Design:** Architectural design deals with the organization of applications in terms of hierarchy of modules and sub-modules. At this stage, we identify major modules; functions and scope of each module; interface features of each module; modules that each module can call directly or indirectly and Data received from / sent to / modified in other modules.
- **Design of Data/Information flow:** The design of the data and information flow is a major step in the conceptual design of the new system. In designing the data / information flow for the proposed system, the inputs that are required are - existing data / information flows, problems with the present system, and objective of the new system. All these have been identified in the analysis phase and documented in Software Requirements Specification (SRS).
- **Design of Database:** Design of the database involves determining its scope ranging from local to global structure. The scope is decided based on interdependence among organizational units. Conceptual Modeling, Data Modeling, Storage Structure Design and Physical Layout Design are the major activities involved in this activity.
- **User Interface Design:** It involves determining the ways in which users will interact with a system. The points that need to be considered while designing the user interface are - source documents to capture raw data, hard-copy output reports, screen layouts for dedicated source-document input, inquiry screens for database interrogation, graphic and color displays, and requirements for special input/output device.
- **Physical Design:** For the physical design, the logical design is transformed into units, which in turn can be decomposed further into implementation units such as programs and modules. During physical design, the primary concern of the auditor is effectiveness and efficiency issues. Some of the issues addressed here are type of hardware for client application and server application, Operating systems to be used, type of networking, processing – batch – online, real – time; frequency of input, output; and month-end cycles / periodical processing.
- **System's Operating Platform:** In some cases, the new system requires an operating platform including hardware, network and system software not currently available in an organization. For example – a DSS might require high-quality graphics output not supported by the existing hardware and software. The new hardware/system software platform required to support the application system will then have to be designed for requisite provisions.
- **Internal Design Controls:** From internal control point of view, this phase is also an important phase as all internal controls are placed in system during this phase. The key control aspects at this stage include some concerns like - Whether all control aspects have been properly covered?; Whether controls put in place in system, appear in the documentation done at this stage?; and Whether a separate review of design document has been done by internal auditor?

15. There are five categories of tests that a programmer typically performs on a program unit. Such typical tests are described as follows:

- **Functional Tests:** Functional Tests check 'whether programs do, what they are supposed to do or not'. The test plan specifies operating conditions, input values, and expected results, and as per this plan, programmer checks by inputting the values to see whether the actual result and expected result match.
- **Performance Tests:** Performance Tests should be designed to verify the response time, the execution time, the throughput, primary and secondary memory utilization and the traffic rates on data channels and communication links.
- **Stress Tests:** Stress testing is a form of testing that is used to determine the stability of a given system or entity. It involves testing beyond normal operational capacity, often to a breaking point, in order to observe the results. These tests are designed to overload a program in various ways. The purpose of a stress test is to determine the limitations of the program. For example, during a sort operation, the available memory can be reduced to find out whether the program is able to handle the situation.
- **Structural Tests:** Structural Tests are concerned with examining the internal processing logic of a software system. For example, if a function is responsible for tax calculation, the verification of the logic is a structural test.
- **Parallel Tests:** In Parallel Tests, the same test data is used in the new and old system and the output results are then compared.

16. Some disadvantages and limitations of the use of the continuous audit system are as follows:

- Auditors should be able to obtain resources required from the organization to support development, implementation, operation, and maintenance of continuous audit techniques.
- Continuous audit techniques are more likely to be used if auditors are involved in the development work associated with a new application system.
- Auditors need the knowledge and experience of working with computer systems to be able to use continuous audit techniques effectively and efficiently.
- Continuous auditing techniques are more likely to be used where the audit trail is less visible and the costs of errors and irregularities are high.
- Continuous audit techniques are unlikely to be effective unless they are implemented in an application system that is relatively stable.

17. The types of Managerial Controls and their scope are as follows:

- **Top Management and Information Systems Management Controls:** Discusses the top management's role in planning, organizing, leading and controlling the information systems function. Also, provides advice to top management in relation to long-run policy decision making and translates long-run policies into short-run goals and objectives.

- **System Development Management Controls:** Provides a contingency perspective on models of the information systems development process that auditors can use as a basis for evidence collection and evaluation.
- **Programming Management Controls:** Discusses the major phases in the program life cycle and the important controls that should be exercised in each phase.
- **Data Resource Management Controls:** Discusses the roles of the data administrator and database administrator and the controls that should be exercises in each phase.
- **Quality Assurance Management Controls:** Discusses the major functions that quality assurance management should perform to ensure that the development, implementation, operation, and maintenance of information systems conform to quality standards.
- **Security Management Controls:** Discusses the major functions performed by operations by security administrators to identify major threats to the IS functions and to design, implement, operate, and maintain controls that reduce expected losses from these threats to an acceptable level.
- **Operations Management Controls:** Discusses the major functions performed by operations management to ensure the day-to-day operations of the IS function are well controlled.

18. Boundary Controls: These maintain the chronology of events that occur when a user attempts to gain access to and employ systems resources.

- Identity of the would-be user of the system;
- Authentication information supplied;
- Resources requested;
- Action privileges requested;
- Terminal Identifier;
- Start and Finish Time;
- Number of Sign-on attempts;
- Resources provided/denied; and

Accounting Audit Trail

- Action privileges allowed/denied.

Operations Audit Trail

- Resource usage from log-on to log-out time.
- Log of Resource consumption.

19. Section 76 under IT Act, 2000 explains about the situation under which any computer or computer resources that shall become liable to confiscation.

[Section 76] Confiscation

Any computer, computer system, floppies, compact disks, tape drives or any other accessories related thereto, in respect of which any provision of this Act, rules, orders or regulations made there under has been or is being contravened, shall be liable to confiscation:

Provided that where it is established to the satisfaction of the court adjudicating the confiscation that the person in whose possession, power or control of any such computer, computer system, floppies, compact disks, tape drives or any other accessories relating thereto is found is not responsible for the contravention of the provisions of this Act, rules, orders or regulations made there under, the court may, instead of making an order for confiscation of such computer, computer system, floppies, compact disks, tape drives or any other accessories related thereto, make such other order authorized by this Act against the person contravening of the provisions of this Act, rules, orders or regulations made thereunder as it may think fit.

20. The IT Infrastructure Library (ITIL) is a set of practices for IT Service Management (ITSM) that focuses on aligning IT services with the needs of business. ITIL describes procedures, tasks and checklists that are not organization-specific, used by an organization for establishing a minimum level of competency. It allows the organization to establish a baseline from which it can plan, implement, and measure. It is used to demonstrate compliance and to measure improvement.

The volumes of ITIL are as follows:

- **Service Strategy:** This provides guidance on clarification and prioritization of service-provider investments in services;
- **Service Design:** This provides good-practice guidance on the design of IT services, processes, and other aspects of the service management effort;
- **Service Transition:** This elate to the delivery of services required by a business into live/operational use, and often encompasses the "project" side of IT rather than Business As Usual (BAU);
- **Service Operation:** This provides best practice for achieving the delivery of agreed levels of services both to end-users and the customers (where "customers" refer to those individuals who pay for the service and negotiate the SLAs), and

- **Continual Service Improvement:** This aims to align and realign IT services to changing business needs by identifying and implementing improvements to the IT services that support the business processes.

21. Guidelines for Energy Conservation are as follows:

- Use Liquid Crystal Display (LCD) monitors rather than Cathode Ray Tube (CRT) monitors;
- Develop a thin-client strategy wherein thin-clients are smaller, cheaper, simpler for manufacturers to build than traditional PCs or notebooks and most importantly use about half the power of a traditional desktop PC;
- Use notebook computers rather than desktop computers whenever possible;
- Use the power-management features to turn off hard drives and displays after several minutes of inactivity;
- Power-down the CPU and all peripherals during extended periods of inactivity;
- Try to do computer-related tasks during contiguous, intensive blocks of time, leaving hardware off at other times;
- Power-up and power-down energy-intensive peripherals such as laser printers according to need;
- Employ alternative energy sources for computing workstations, servers, networks and data centers; and
- Adapt more of Web conferencing offers instead of travelling to meetings in order to go green and save energy.

22. Limitations of Mobile Computing are as follows:

- **Insufficient Bandwidth:** Mobile Internet access is generally slower than direct cable connections using technologies such as GPRS and Enhanced Data for GSM and more recently 4G networks. These networks are usually available within range of commercial cell phone towers. Higher speed wireless LANs are inexpensive but have very limited range.
- **Security Standards:** When working mobile, one is dependent on public networks, requiring careful use of Virtual Private Network (VPN). Security is a major concern while concerning the mobile computing standards on the fleet. One can easily attack the VPN through a huge number of networks interconnected through the line.
- **Power consumption:** When a power outlet or portable generator is not available, mobile computers must rely entirely on battery power. Combined with the compact size of many mobile devices, this often means unusually expensive batteries must be used to obtain the necessary battery life. Mobile computing should also look into Greener IT in such a way that it saves the power or increases the battery life.

- **Transmission interferences:** Weather, terrain, and the range from the nearest signal point can all interfere with signal reception. Reception in tunnels, some buildings, and rural areas is often poor.
- **Potential health hazards:** People who use mobile devices while driving are often distracted from driving are thus assumed more likely to be involved in traffic accidents. Cell phones may interfere with sensitive medical devices. There are allegations that cell phone signals may cause health problems.
- **Human interface with device:** Screens and keyboards tend to be small, which may make them hard to use. Alternate input methods such as speech or handwriting recognition require training.

23. The different instances of Infrastructure as a Service (IaaS) model in Cloud Computing are as follows:

- **Network as a Service (NaaS):** NaaS, an instance of IaaS, provides users with needed data communication capacity to accommodate bursts in data traffic during data-intensive activities such as video conferencing or large file downloads. It is an ability given to the end-users to access virtual network services that are provided by the service provider over the Internet on a per-per-use basis.
- **Storage as a Service (STaaS):** STaaS, an instance of IaaS, provides storage infrastructure on a subscription basis to users who want a low-cost and convenient way to store data, synchronize data across multiple devises, manage off-site backups, mitigate risks of disaster recovery, and preserve records for the long-term. It is an ability given to the end users to store the data on the storage services provided by the service provider.
- **Database as a Service (DBaaS):** This is also related to IaaS and provides users with seamless mechanisms to create, store, and access databases at a host site on demand. It is an ability given to the end users to access the database service without the need to install and maintain it on the pay-per-use basis. The end users can access the database services through any Application Programming Interfaces (APIs) or Web User Interfaces provided by the service provider.
- **Backend as a Service (BaaS):** It is a type of IaaS, that provides web and mobile app developers a way to connect their applications to backend cloud storage with added services such as user management, push notifications, social network services integration using custom software development kits and application programming interfaces.
- **Desktop as a Service (DTaaS):** It is an instance of IaaS that provides ability to the end users to use desktop virtualization without buying and managing their own infrastructure. DTaaS is a pay-per-use cloud service delivery model in which the service provider manages the back-end responsibilities of data storage, backup, security and upgrades. The end-users are responsible for securing for managing their

own desktop images, applications, and security. These services are simple to deploy, highly secure and produce better experience on almost all devices.

24. (a) Components of COBIT are as follows:

- **Framework -** Organize IT governance objectives and good practices by IT domains and processes, and links them to business requirements;
- **Process Descriptions -** A reference process model and common language for everyone in an organization. The processes map to responsibility areas of plan, build, run and monitor.
- **Control Objectives -** Provide a complete set of high-level requirements to be considered by management for effective control of each IT process.
- **Management Guidelines -** Help assign responsibility, agree on objectives, measure performance, and illustrate interrelationship with other processes
- **Maturity Models -** Assess maturity and capability per process and helps to address gaps.

(b) Major benefits of Office Automation Systems (OAS) are as follows:

- Office Automation Systems improve communication within an organization and between enterprises.
- They reduce the cycle time between preparation of messages and receipt of messages at the recipients' end.
- They also reduce the costs of office communication both in terms of time spent by executives and cost of communication links.
- Office Automation Systems ensure accuracy of information and smooth flow of communication.

(c) Examples of Segregation of Duties (SoD) are as follows:

- Systems software programming group from the application programming group;
- Database administration group from other data processing activities;
- Computer hardware operations from the other groups;
- Systems analyst function from the programming function;
- Physical, data, and online security group(s) from the other IS functions; and
- IS Audit from business operations groups.

(d) Agile Manifesto is based on following 12 features:

- Customer satisfaction by rapid delivery of useful software;
- Welcome changing requirements, even late in development;
- Working software is delivered frequently (weeks rather than months);

- Working software is the principal measure of progress;
- Sustainable development, able to maintain a constant pace;
- Close, daily co-operation between business people and developers;
- Face-to-face conversation is the best form of communication (co-location);
- Projects are built around motivated individuals, who should be trusted;
- Continuous attention to technical excellence and good design;
- Simplicity;
- Self-organizing teams; and
- Regular adaptation to changing circumstances.

(e) **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)** Information Systems Auditing is the process of attesting objectives (those of the external auditor) that focus on asset safeguarding, data integrity and management objectives (those of the internal auditor) that include effectiveness and efficiency both. This enables organizations to better achieve four major objectives that are as follows:

- **Asset Safeguarding Objectives:** The information system assets (hardware, software, data information etc.) must be protected by a system of internal controls from unauthorised access.
- **Data Integrity Objectives:** It is a fundamental attribute of IS Auditing. The importance to maintain integrity of data of an organisation requires all the time. It is also important from the business perspective of the decision maker, competition and the market environment.
- **System Effectiveness Objectives**: Effectiveness of a system is evaluated by auditing the characteristics and objective of the system to meet business and user requirements.
- **System Efficiency Objectives:** To optimize the use of various information system resources (machine time, peripherals, system software and labour) along with the impact on its computing environment.

(b) The Disaster Recovery Planning document may include the following areas:

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

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

(c) **Web 3.0:** The term Web 3.0, also known as the Semantic Web, describes sites wherein the computers will be generated raw data on their own without direct user interaction. Web 3.0 standard uses semantic web technology, drag and drop mash-ups, widgets, user behavior, user engagement and consolidation of dynamic web contents depending on the interest of the individual users. Web 3.0 technology uses the "Data Web" Technology, which features the data records that are publishable and reusable on the web through query-able formats. An example of typical Web 3.0 application is the one that uses content management systems along with artificial intelligence.

The two major components of Web 3.0 are as follows:

- **Semantic Web:** This provides the web user a common framework that could be used to share and reuse the data across various applications, enterprises, and community boundaries. This allows the data and information to be readily intercepted by machines, so that the machines can take contextual decisions on their own by finding, combining and acting upon relevant information on the web.
- **Web Services:** It is a software system that supports computer-to-computer interaction over the Internet. For example - the popular photo-sharing website Flickr provides a web service that could be utilized and the developers to programmatically interface with Flickr in order to search for images.

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 30th April, 2018 are applicable for November, 2018 examination. The relevant assessment year for November, 2018 examination is A.Y.2018-19. The significant notifications/circulars issued upto 30th April, 2018, relevant for November, 2018 examination but not covered in the August 2017 edition of the Study Material, are given hereunder.

STUDY MATERIAL MODULE - 1

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]

Income by way of salary, received by non-resident seafarers, for services rendered outside India on-board foreign ships, is 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. On receiving representations in this regard, the CBDT examined the matter and 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 ₹ 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.

Clarification on applicability of section 9(1)(i) relating to indirect transfer in case of redemption of share or interest outside India [Circular No. 28/2017, dated 7-11-2017]

Section 9(1)(i) provides that all income accruing or arising, whether directly or indirectly, through or from any business connection in India, or through or from any property in India, or through or from any asset or source of income in India or through the transfer of a capital asset situate in India, shall be deemed to accrue or arise in India.

Explanation 5 to section 9(1)(i), clarifies that an asset or a capital asset being any share or interest in a company or entity registered or incorporated outside India shall be deemed to be and shall always be deemed to have been situated in India, if the share or interest derives, directly or indirectly, its value substantially from the assets located in India.

Concerns were raised by investment funds, including private equity funds and venture capital funds that on account of the extant indirect transfer provisions in the Act, non-resident investment funds investing in India, which are set up as multi-tier investment structures, suffer multiple taxation of the same income at the time of subsequent redemption or buyback.

However, in respect of investments in Category I and II FPIs by non-residents, which are already exempted from indirect transfer provisions through insertion of second proviso to *Explanation 5* to section 9(1)(i) by the Finance Act, 2017 with effect from 1.4.2015, such multiple taxation will not take place. In other cases, such taxability arises firstly at the level of the fund in India on its short-term capital gain/business income and then at every upper level of investment in the fund chain on subsequent redemption or buyback. The CBDT has received representations to exclude investors above the level of the direct investor who is already chargeable to tax in India on such income from the ambit of indirect transfer provisions of the Act.

In order to address this concern, the CBDT has, vide this Circular, clarified that the provisions of section 9(1)(i) read with *Explanation 5*, shall not apply in respect of income accruing or arising to a non-resident on account of redemption or buyback of its share or interest held indirectly (i.e. through upstream entities registered or incorporated outside India) in the specified funds (namely, investment funds, venture capital company and venture capital funds) if such income accrues or arises from or in consequence of transfer of shares or securities held in India by the specified funds and such income is chargeable to tax in India.

However, the above benefit shall be applicable only in those cases where the proceeds of redemption or buyback arising to the non-resident do not exceed the pro-rata share of the non-resident in the total consideration realized by the specified funds from the said transfer of shares or securities in India. It is further clarified that a non-resident investing directly in the specified funds shall continue to be taxed as per the extant provisions of the Act.

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'.

Applicability of income-tax provisions under section 40A(3), section 269ST and Rule 114B to cash sale of agricultural produce by cultivators/agriculturists to traders [Circular No. 27/2017, dated 3-11-2017]

The provisions of section 40A(3) provide for the disallowance of expenditure exceeding ₹ 10,000 made otherwise than by an account payee cheque/draft or use of electronic clearing system through a bank account. However, Rule 6DD carves out certain exceptions from application of the provisions of section 40A(3) in some specific cases and circumstances, which *inter alia*, include payments made for purchase of agricultural produce to the cultivators of such produce. Therefore, no disallowance under section 40A(3) can be made if the trader makes cash purchases of agricultural produce from the cultivator.

Further, section 269ST, subject to certain exceptions, prohibits receipt of ₹ 2 lakh or more, otherwise than by an account payee cheque/draft or by use of electronic clearing system through a bank account from a person in a day or in respect of a single transaction or in respect of transactions relating to an event or occasion from a person. Therefore, any cash sale of an amount of ₹ 2 lakh or more by a cultivator of agricultural produce is prohibited under section 269ST.

Furthermore, the provisions relating to quoting of PAN or furnishing of Form No. 60 under Rule 114B do not apply to the sale transaction of ₹ 2 lakh or less.

In view of the above, it is clarified by the CBDT that cash sale of the agricultural produce by its cultivator to the trader for an amount less than ₹ 2 lakh will **not** -

(a) result in any disallowance of expenditure under section 40A(3) in the case of trader.

(b) attract prohibition under section 269ST in the case of the cultivator; and

(c) require the cultivator to quote his PAN/ or furnish Form No. 60.

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.

STUDY MATERIAL MODULE - 2

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 Income-tax Act, 1961.

Contributory Health Service Scheme notified for the purpose of section 80D [Notification No. 9 /2018 dated 16-2-2018]

Under section 80D, a deduction to the extent of ₹ 25,000 (₹ 30,000, in case of resident senior citizens) is allowed in respect of premium paid to effect or keep in force an insurance on the health of self, spouse and dependent children or any contribution made to the Central Government Health Scheme or such other health scheme as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification, notified the Contributory Health Service Scheme of the Department of Atomic Energy, contribution to which would qualify for deduction under section 80D.

CHAPTER 12: ASSESSMENT OF VARIOUS ENTITIES

Relaxation in the provisions relating to levy of Minimum Alternate Tax (MAT) in case of companies against whom an application for corporate insolvency resolution process has been admitted under the Insolvency and Bankruptcy Code, 2016 [Press Release, dated 6-1-2018]

The existing provisions of section 115JB, *inter alia*, provide, that, for the purposes of levy of Minimum Alternate Tax (MAT) in case of a company, the amount of loss brought forward or unabsorbed depreciation, whichever is less as per books of account shall be reduced from the book profit.

In this regard, the CBDT has received representations from various stakeholders that the companies against whom an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under section 7 or section 9 or section 10 of the

Insolvency and Bankruptcy Code, 2016, are facing hardship due to restriction in allowance of brought forward loss for computation of book profit under section 115JB.

With a view to minimize the genuine hardship faced by such companies, with effect from Assessment Year 2018-19 (i.e. Financial Year 2017-18), in case of a company, against whom an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under section 7 or section 9 or section 10 of the IBC, the amount of total loss brought forward (including unabsorbed depreciation) shall be allowed to be reduced from the book profit for the purposes of levy of MAT under section 115JB.

STUDY MATERIAL MODULE - 3

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-to-day 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 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 passenger service fees (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.

Guidance on income-tax deduction from salaries under section 192 during the financial year 2017-18 [Circular No. 29/2017, dated 05-12-2017]

This CBDT Circular contains the rates for deduction of income-tax from the payment of income chargeable under the head "Salaries" during the financial year 2017-18 and explains certain provisions of the Income-tax Act, 1961 and Income-tax Rules, 1962, including the broad scheme of TDS from Salaries, persons responsible for deducting tax at source from Salaries and their duties, computation of income under the head "Salaries" etc.

Students may read/download this circular by using the following link - https://www.incometaxindia.gov.in/communications/circular/circular29_2017.pdf

CHAPTER 17: ASSESSMENT PROCEDURE

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.

Income Tax Return Forms notified for Assessment Year 2018-19 [Notification No. 16/2018, dated 3-4-2018]

The CBDT has notified Income-tax Return Forms (ITR Forms) for the Assessment Year 2018-19 *vide* this Notification. The ITR Forms and its applicability have been detailed below:

ITR Form No	Applicability
1	A one page simplified ITR 1 (SAHAJ) can be filed by an individual who **is resident other than not ordinarily resident**, having income from salaries, one house property, income from other sources (interest etc.). and having total income upto ₹ 50 lakh.
2	Individuals and HUFs having not having income from business or profession shall be eligible to file ITR 2.
3	Individuals and HUFs having income under the head “Profits and gains of business or profession” have to file ITR 3.
4	ITR 4 (SUGAM) can be used by eligible assessees having presumptive income from business or profession. Thus, eligible assessees having only presumptive income under section 44AD, 44ADA or 44AE, under the head “Profits and gains of business or profession” have to file return in ITR 4. In addition, they may have salary income, income from house property and income from other sources (excluding winnings from lottery and income from race horses, income taxable under section 115BBDA and income of the nature referred to in section 115BBE). Any person having agricultural income in excess of ₹ 5,000 cannot use ITR 4. Further, a person claiming relief of foreign tax paid under section 90, 90A or 91 cannot use this form. Also, this form cannot be used by a resident having any asset (including financial interest in any entity) located outside India or signing authority in any account located outside India and by a resident having income from any source outside India.
5	ITR 5 can be used by persons other than individual, HUF, company and person filing Form ITR 7.

6	ITR 6 can be used by companies other than companies claiming exemption under section 11.
7	ITR 7 can be used by persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4E) or 139(4F).

All these ITR Forms are to be filed electronically. However, where return is furnished in ITR Form-1 (SAHAJ) or ITR-4 (SUGAM), the following persons have an option to file return in paper form:

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

(ii) an Individual or HUF whose income does not exceed five lakh rupees and who has not claimed any refund in the Return of Income.

Amendments to the Tax Return Preparer Scheme, 2006 as notified u/s 139B [Notification No. 4/2018, dated 19-01-2018]

Section 139B provides that for the purpose of enabling any specified class or classes of persons in preparing and furnishing returns of income, the CBDT may, without prejudice to the provisions of section 139, frame a Scheme, by notification in the Official Gazette, providing that such persons may furnish their returns of income through a Tax Return Preparer (TRP) authorised to act as such under the Scheme.

Accordingly, vide Notification No 358/2006 dated 28.11.2006, the CBDT had notified the "Tax Return Preparer Scheme, 2006". Later on, the said scheme was amended vide Notification No 84/2010 dated 22.11.2010. Vide this notification, the said scheme is further amended so as to widen the scope of the Scheme. The amended portion is given in ***bold italics*** in the second column below:

Particulars	Contents
Applicability of the scheme	The scheme is applicable to all eligible persons.
Eligible person	Any person being an individual or a Hindu undivided family.
Tax Return Preparer	Any individual who has been issued a "Tax Return Preparer Certificate" and a "unique identification number" under this Scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the Scheme. However, the following person are not entitled to act as TRP: (i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings. (ii) any legal practitioner who is entitled to practice in any civil court in India. (iii) an accountant.

Educational qualification for Tax Return Preparers	***An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as TRP.***
Preparation of and furnishing the Return of Income by the Tax Return Preparer	An eligible person may, at his option, furnish his return of income u/s 139 for any assessment year after getting it prepared through a TRP: However, the following eligible persons (an individual or a HUF) cannot furnish a return of income for an assessment year through a TRP: (i) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited under section 44AB or under any other law for the time being in force; or (ii) who is not a resident in India during the previous year. An eligible person cannot furnish a revised return of income for any assessment year through a TRP unless he has furnished the original return of income for that assessment year through such or any other TRP. Further, a return of income which is required to be furnished in response to a notice under section 142(1)(i) or under section 148 or under section 153A cannot be prepared or furnished through a TRP.

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.

STUDY MATERIAL MODULE - 4

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:

I.	**<u>Information and documents to be kept and maintained [Rule 10DA]</u>**
Rule	**Particulars**
10DA(1)	**<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 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.
	<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 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).
10DA(4)/ (5)	**Furnishing of report in case of more than one constituent entity:** 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)	**Period for which such information and document to be kept or maintained:** 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)	**Intimation in prescribed from:** 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)	**Due date for the Intimation:** 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)	**Entities which are required to furnish report in Form No. 3CEAD:** 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)]*

Explanatory Notes to the provisions of the Finance Act, 2017 [Circular No. 2/2018, Dated 15-2-2018]

Explanatory notes to the provisions of Finance Act, 2017 as assented by President on 31st March, 2017 have been given by way of this circular. This circular, thus, explains the substance of the direct tax provisions contained in the Finance Act, 2017.

This Circular is available at the Income-tax Department's website at https://www.incometaxindia.gov.in/communications/circular/circular2_2018.pdf. This Circular has also been hosted at the BoS Knowledge Portal on the Institute's website at https://resource.cdn.icai.org/48797bos32735.pdf.

***Note** - The limit for gratuity notified under the Payment of Gratuity Act, 1972 has been increased from ₹ 10 lakh to ₹ 20 lakh with effect from 29.3.2018.*

SECTION – B: QUESTIONS & ANSWERS

QUESTIONS

1. ABC Inc., a company incorporated in London has entered into an agreement with XYZ Limited, an Indian company for rendering technical services to the latter for setting up a steel plant in Madhya Pradesh. As per the agreement, ABC Inc. rendered both off-shore services and on-shore services to XYZ Limited at fee of ₹ 75 lakhs and ₹ 90 lakhs, respectively. ABC Inc. is of the view that it is not liable to tax in India in respect of fee of ₹ 75 lakhs as it is for rendering services outside India. Discuss the correctness of the view of ABC Inc.

2. XYZ Ltd. is a company engaged in the manufacture of paints. The company incurred preliminary expenses of ₹ 42 lakhs. The cost of the project was ₹ 400 lakhs and the capital employed in the business of the company was ₹ 700 lakhs. For the purpose of claiming deduction under section 35D, the company restricted the said expenditure to ₹ 35 lakhs, i.e., 5% of ₹ 700 lakhs, being the capital employed in the business of the company. For this purpose, the company treated share premium of ₹ 100 lakhs as part of the capital employed. For the A.Y.2018-19, it claimed deduction of ₹ 7 lakhs, being 1/5th of ₹ 35 lakhs, under section 35D. The Assessing Officer disallowed ₹ 1 lakh, being the portion relating to share premium (1/5th of 5% of ₹ 100 lakhs), contending that the same was not part of capital employed. Whether "premium" on subscribed share capital is "capital employed in the business of the company" under section 35D to be eligible for a deduction? Examine the correctness of contention of the Assessing Officer, with the aid of a case law.

3. Mr. Krishnan owned vast area of agricultural land in Tamil Nadu. The State Government acquired the property for development of a techno park. Mr. Krishnan was awarded compensation of ₹ 15 lakhs. Aggrieved by the amount, he initiated negotiations with the

Collector, further to which compensation was fixed at ₹ 35 lakhs. Mr. Krishnan claimed exemption from capital gains under section 10(37) since the transfer of agricultural land was on account of compulsory acquisition. The Assessing Officer contended that exemption under section 10(37) would not be available in this case, as it was not a compulsory acquisition but a voluntary sale, since he had received higher compensation consequent to negotiation.

Examine whether the claim for exemption under section 10(37) is tenable in law in this case.

4. Ms. Poorna purchased a residential flat at Pune from her friend Ms. Leena at ₹ 12 lakhs on 15th November, 2017. The value determined by the Stamp Valuation Authority for stamp duty purpose amounted to ₹ 20 lakhs. Ms. Leena had purchased the flat on 3rd March, 2016 at a cost of ₹ 5 lakhs. Ms. Poorna sold the flat for ₹ 27 lakhs on 27th March, 2018.

   Determine the effect of the above transactions on the assessments of Ms. Poorna and Ms. Leena for the assessment year 2018-19, assuming that the stamp duty value of the flat on 27.3.2018 is ₹ 32 lakhs.

5. PQR Manufacturing Ltd., a manufacturing company, was transporting its machines from one unit to another unit at a distance of 275 kms on 29th November, 2017 by a truck. On account of a civil disturbance, the machines were destroyed. The insurance company paid ₹ 12 lakhs for the destroyed machines. On these facts, for submitting the return of income for the previous year ending 31st March, 2018, your advice is sought as to:

   (i) Does the destruction of machines result in any transfer?

   (ii) How would the amounts received from the insurance company be treated for taxability?

   (iii) Would there be any impact on the written down value of the block of plant and machinery as at 31st March, 2018?

6. Aadarsh HUF holds 35% shares of M/s. Best Fertilizers (P.) Ltd., a closely held company. During the P.Y.2017-18, it received loans and advances from the company. Its return was scrutinized by the Assessing Officer who treated the loans and advances as deemed dividend under section 2(22)(e). As per the company's annual return, the HUF is the shareholder. However, the share certificates were issued in the name of the HUF's Karta, Mr. Aadarsh. Thus, there was some dispute as to who was the shareholder - the Karta, Mr. Aadarsh or the HUF, as share certificates were issued in the name of the former but the annual return mentioned the latter.

   Aadarsh HUF contended that as a HUF cannot be a registered or beneficial shareholder of a company, the amount of loan cannot be taxed as deemed dividend.

   Examine whether the loan given by a closely held company to a HUF is chargeable to tax as deemed dividend under section 2(22)(e).

7. ABC Ltd., engaged in development of housing projects, filed its return of income for A.Y.2018-19 after claiming deduction of ₹ 25 lakhs under section 80-IBA. The return was selected for scrutiny. In the assessment, a sum of ₹ 12.60 lakhs, being 30% of ₹ 42 lakhs, towards sub-contract payment was disallowed for non-deduction of tax at source by invoking section 40(a)(ia). The Assessing Officer, however, limited the deduction under section 80-IBA to the original amount claimed by ABC Ltd. ABC Ltd. contended that it was eligible for a higher deduction of ₹ 37.60 lakhs under section 80-IBA consequent to disallowance under section 40(a)(ia). Examine the correctness of contention of ABC Ltd.

8. Mysore Co-operative Society derives income during financial year 2017-18 from the following sources:

(i)	Income from processing with the aid of power	₹ 40,000
(ii)	Income from collective disposal of labour of its members	₹ 20,000
(iii)	Interest from another co-operative society	₹ 12,000
(iv)	Income from house property (Computed)	₹ 75,000
(v)	Income from other business	₹ 72,000
(vi)	Income by way of dividend from another co-operative society	₹ 15,000

Determine the total income of Mysore Co-operative Society for the A.Y.2018-19.

9. Alpha Diagnostics is a diagnostic laboratory in Cochin and has a branch at Allepey. A survey under section 133A was conducted, consequent to which the assessee filed return of income. On the basis of certain incriminating documents and materials unearthed during the survey, a notice under section 148 was issued. Subsequently, the incomes were assessed for assessment years 2014-15 and 2015-16 under section 143(3) read with section 147.

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

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

10. "Fashion Trends" filed its return of income as a partnership firm for the relevant assessment year admitting a total income of ₹ 150 lakhs. The firm consisted of fifteen individuals and two firms. The return of income was selected for scrutiny which led to disallowance of certain deductions to the tune of ₹ 70 lakhs. The assessee preferred an

appeal. The CIT (Appeals) invoked section 251 and issued a show cause notice proposing to change the assessee's status to AOP on the reasoning that a partnership firm cannot be a partner in another firm. Discuss the correctness of the contention of the CIT (Appeals). Also, examine whether the CIT (Appeals) has the power to change the status of the assessee.

11. The statement of profit & loss of LMN Private Ltd., a resident company engaged in manufacturing, shows net profit of ₹ 77,00,000 for the financial year ended on 31st March, 2018, after debit/credit of the following items.

A. Credited to the Statement of Profit and Loss:

(i) Rent received from vacant land ₹ 2,05,000

(ii) Rent received (gross) from a commercial property owned by the company ₹ 4,30,000 (Tax deducted by tenant @ 10%)

(iii) Interest received on income tax refund ₹ 42,000

(iv) Profit on sale of unused land ₹ 2,00,000.

B. Debited to the Statement of Profit and Loss:

(i) Depreciation charged to the Statement of Profit and Loss ₹ 11,75,000.

(ii) Donation of ₹ 70,000 paid to Swachh Bharat Kosh.

(iii) Contribution to Political Party amounting to ₹ 1,50,000 paid in cash.

(iv) Payment made to transporter ₹ 60,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under section 44AE and not having more than 10 goods carriages at any time during the previous year).

(v) Bonus to employees ₹ 3,20,000 provided. However, payment was made on the occasion of Diwali festival on 18th October, 2018.

(vi) Provision made for income-tax ₹ 4,20,000 (including interest of ₹ 70,000 thereon)

(vii) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii)

(viii) Loss of ₹ 1,80,000 incurred by way of trading in derivatives in shares in a recognized stock exchange.

Additional information:

(1) Depreciation as per Income-tax Act, 1961 ₹ 18,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2017 is given below:

(a) Printers and Scanners ₹ 3,00,000

(b) EPABX ₹ 5,00,000

(2) Additional depreciation on plant and machinery purchased for ₹ 34,00,000 on 18th November, 2017 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.

(3) Provision for audit fee ₹ 1,00,000 was made in the books for the year ended on 31st March, 2017 without deducting tax at source.

Such fee was paid to auditors in September 2017 after deducting tax at source under Section 194J and tax so deducted was deposited on 6th October, 2017.

(4) The company during the financial year 2016-17 made a provision for an outstanding bill of ₹ 90,000 for purchase of raw material. Out of such outstanding amount, the company has paid ₹ 45,000 in cash on 20th August, 2017.

(5) During the year, the company has issued 1,00,000 equity shares of face value of ₹ 10 each at premium of ₹ 90 each. The fair market value is ₹ 60 per share at the time of issue of shares.

(6) Unused land which was sold in March, 2018 for ₹ 52,00,000 was acquired by the company in January, 2016 for ₹ 50,00,000.

(7) Cost Inflation Index – FY 2015-16: 254; FY 2017-18: 272

Compute total income of the company for the Assessment Year 2018-19 stating reasons for treatment of each item. Ignore provisions relating to Minimum Alternate Tax.

12. PQR LLP, a limited liability partnership in India is engaged in development of software and providing IT enabled services through two units, namely, Unit P and Unit Q. Unit P is setup in Special Economic Zone (SEZ) and Unit Q is set up in a Domestic Tariff Area (DTA). The LLP furnishes the following information relating to its 3rd year of operation ended on 31-3-2018:

Items	**(Amount in ₹ Lacs)**	
	Unit P	**Unit Q**
Export Turnover	1200	920
Domestic Turnover	200	460
Duty Draw Back	38	38
Profit on sale of Import Entitlement	24	Nil
Salaries paid	540	192
Other expenses	420	473
Net Profit of the year	502	753

Additional Information:

(i) **Unit P**: Expenses of ₹ 24 lacs are disallowable under section 43B and export sales proceeds received in India amounted to ₹ 1040 lacs. Export sales of ₹ 1200 lacs include freight and insurance of ₹ 200 lacs and realization of ₹ 1040 lacs includes amount of insurance and freight charges of ₹ 140 lacs.

(ii) **Unit Q**: Export sales received in India was ₹ 850 lacs. Expenses charged and are to be disallowed as per section 40A(3) are of ₹ 47 lacs.

Compute tax payable by PQR LLP for the Assessment Year 2018-19.

13. Mr. Vishwas, aged 61 years, is a resident and ordinarily resident in India for the A.Y.2018-19. He owns an apartment in Abu Dhabi, which he purchased on 1.6.2008, and he also has a bank account in the Bank of Abu Dhabi.

(a) Mr. Vishwas contends that since his total income of ₹ 2,95,000 for the P.Y.2017-18, comprising of income from house property and bank interest, is less than the basic exemption limit, he need not file his return of income for A.Y.2018-19.

(b) Mr. Vishwas also contends that the notice issued by the Assessing Officer under section 148 in September, 2017 for A.Y.2009-10 is not valid due to the following reasons –

(i) There is no escaped income relating to that year; and

(ii) The time period prescribed in section 149 for issuing notice under section 148 for A.Y.2009-10 has since lapsed.

Discuss the correctness of the above contentions of Mr. Vishwas.

14. The Assessing Officer within his jurisdiction surveyed a popular restaurant (bar cum restaurant) at 10.15 p.m. for the purpose of collecting information which may be useful for the purposes of the Income-tax Act, 1961. The restaurant is kept open for business every day between 8 a.m. and 11.30 p.m. The owner of the restaurant claims that the Assessing Officer could not enter the restaurant for survey after sunset. The Assessing Officer wanted to take away with him the books of account kept at the restaurant. Examine the validity of the claim made by the owner and the proposed action of the Assessing Officer.

15. Medicare Trust running hospitals is registered under section 12AA. From the following particulars relevant for the previous year ended 31st March, 2018, you are required to compute taxable income and tax liability of the trust for A.Y.2018-19.

(i) Income from running of hospitals ₹ 108 lakhs.

(ii) Income from medical college (gross receipts ₹ 95 lakhs) ₹ 24 lakhs

(iii) Donation received (including anonymous donation ₹ 3 lakhs) ₹ 8 lakhs.

(iv) Amount applied for the purposes of hospital ₹ 93.50 lakhs.

(v) The trust had accumulated ₹ 20 lakhs under section 11(2) in the financial year 2011-12 for a period of five years for extension of one of its hospitals. The trust has spent ₹ 15 lakhs for the said purpose till 31st March, 2017. No amount was spent in the year 2017-18.

16. Unipro Ltd., a manufacturer of automobiles, sells premium model cars, the value of which ranges from above ₹ 10 lakh to ₹ 25 lakh and small cars, value of which ranges from ₹ 5 lakh upto ₹ 10 lakh to its dealers across the country. Examine whether Unipro Ltd. is liable to collect tax at source under section 206C on sale of these cars to the different dealers across the country.

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

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

    (i) Scientific research services provided by Lambda Sicom, an Italian company to XYZ Ltd., an Indian company. Lambda Sicom is a "specified foreign company" as defined in section 115BBD, in relation to XYZ Ltd.

    (ii) Purchase of commodities by Omega Ltd., an Indian company, from Cylo AG, a German company. Omega Ltd. is the subsidiary of Cylo AG.

    (iii) EF Ltd., an Indian company, has two units, E & F. Unit E, which commenced business two years back, is engaged in the development of a highway project, for which purpose an agreement has been entered into with the Central Government. Unit F is carrying on the business of trading in steel. Unit F transfers 20,000 metric tons of steel of the value of ₹ 32,000 per MT to Unit E for ₹ 20,000 per MT.

    (iv) Ms. Geetha, a resident Indian, is a director of Theta Ltd, an Indian company. Theta Ltd. pays salary of ₹ 40 lakhs per annum to Samyukta, who is Ms. Geetha's daughter.

    (v) Transfer of technical knowhow by Y Ltd., an Indian company, to Alcatel Lucent, a French company, which guarantees 15% of the borrowings of Y Ltd.

18. An Irish company, Phi plc., entered into a contract with an Indian company, Beta Ltd., for provision of technical know-how and made an application to the Authority for Advance Rulings for advance ruling on the rate of withholding tax on receipts from Beta Ltd.. Beta Ltd. had also made an application to the Assessing Officer for determination of the rate at which tax is deductible on the said payment to Phi plc The Authority for Advance Rulings rejected the application of Phi plc on the ground that the question raised in the application is already pending before an income tax authority. Is the rejection of the application of Phi plc justified in law?

19. Mr. Ranjit, an individual resident in India aged 32 years, furnishes you the following particulars of income earned in India, Country P and Country Q for the previous year 2017-18. India has not entered into double taxation avoidance agreement with these two countries.

Particulars	₹
Income from profession carried on in India	6,20,000
Agricultural income in Country P (gross)	82,000
Dividend received from a company incorporated in Country Q (gross)	97,000
Royalty income from a literary book from Country P (gross)	5,20,000
Expenses incurred for earning royalty	30,000
Business loss in Country Q (Proprietary business)	70,000
Rent from a house situated in Country Q (gross)	3,20,000
Municipal tax in respect of the above house (not allowed as deduction in country Q)	12,000

Notes:

(1) Business loss in Country Q not eligible for set off against other incomes as per law of that country.

(2) Agricultural income is not exempt in Country P.

(3) No statutory deduction is allowable against income from house property in Country Q.

The rates of tax in Country P and Country Q are 12% and 15%, respectively.

Compute total income and tax payable by Mr. Ranjit in India for A.Y.2018-19.

20. Examine the tax consequence for Assessment Year 2018-19 in respect of fees for technical services (FTS) received by Mr. Tom Sawyer, a non-resident, from Ganga Ltd., an Indian company, in pursuance of an agreement approved by the Central Government, if -

(a) India has no Double Tax Avoidance Agreement (DTAA) with Country A

(b) India has a DTAA with Country A, which provides for taxation of such FTS @5%.

(c) India has a DTAA with Country A, which provides for taxation of such FTS @15%.

The technical services are utilised by Ganga Ltd. for its business in Calcutta. Assume that Tom Sawyer is a resident of Country A and he has no fixed place of his profession in India.

Would your answer change if he has a fixed place of his profession in India and he renders technical services through that place? Examine, in a case where India has no DTAA with Country A.

SUGGESTED ANSWERS/HINTS

1. The *Explanation* to section 9(1) clarifies that income by way of, *inter alia*, fees for technical services from services utilized in India would be deemed to accrue or arise in India under section 9(1)(vii) in case of a non-resident and be included in his total income, whether or not such services were rendered in India.

In this case, the technical services rendered by the foreign company, ABC Inc., were for setting up a steel plant in Madhya Pradesh. Therefore, the services were utilized in India. Consequently, as per section 9(1)(vii) read with the above *Explanation*, the fee of ₹ 1.65 crore for technical services rendered by ABC Inc (both off-shore and on-shore services) to XYZ Ltd. is deemed to accrue or arise in India and includible in the total income of ABC Inc.

Therefore, the view of ABC Inc. that it is not liable to tax in India in respect of fee of ₹ 75 lakh (as it is for rendering services outside India) is not correct.

2. The issue under consideration is whether "premium" on subscribed share capital can be treated "capital employed in the business of the company" under section 35D to be eligible for increased deduction

This issue came up before the Supreme Court in *Berger Paints India Ltd v. CIT [2017] 393 ITR 113.* The Supreme Court observed that the share premium collected by the assessee on its subscribed issued share capital could not be part of "capital employed in the business of the company" for the purpose of section 35D(3)(b). If it were the intention of the legislature to treat share premium as being "capital employed in the business of the company", it would have been explicitly mentioned. Moreover, Sl. No. IV(i) in Form MGT- 7 read with section 92 of the Companies Act, 2013[1] dealing with capital structure of the company provides the break-up of "issued share capital" and "subscribed share capital" which does not include share premium at the time of subscription. Hence, in the absence of the reference in section 35D, share premium is not a part of the capital employed. Also, section 52 of the Companies Act, 2013[2] requires a company to transfer the premium amount to be kept in a separate account called "securities premium account".

Accordingly, the amount qualifying for deduction under section 35D would be ₹ 30 lakhs, being 5% of ₹ 600 lakhs [i.e., ₹ 700 lakhs (-) share premium of ₹ 100 lakhs]. The deduction under section 35D for A.Y.2018-19 would be ₹ 6 lakhs, being 1/5th of ₹ 30 lakhs. The contention of the Assessing Officer is, therefore, correct.

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[1] Corresponding to column III of the form of the annual return in Part II of Schedule V to the Companies Act, 1956 under section 159

[2] Corresponding to section 78 of the erstwhile Companies Act, 1956

3. The issue under consideration is whether receipt of higher compensation on account of negotiation would transform the character of compulsory acquisition into a voluntary sale, so as to deny exemption under section 10(37).

This issue came up before the Supreme Court in *Balakrishnan v. Union of India & Others (2017) 391 ITR 178 (SC).* The Apex Court observed that the acquisition process was initiated under the Land Acquisition Act, 1894. The assessee entered into negotiations only for securing the market value of the land without having to go to the Court. Merely because the compensation amount is agreed upon, the character of acquisition will not change from compulsory acquisition to a voluntary sale. The Court also drew attention to a recently enacted legislation titled, Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, which empowers the Collector to pass an award with the consent of the parties. Despite the provision for consent, the acquisition would continue to be compulsory.

Accordingly, the Supreme Court held that when proceedings were initiated under the Land Acquisition Act, 1894, even if the compensation is negotiated and fixed, it would continue to remain as compulsory acquisition.

Applying the rationale of the Supreme Court ruling to the case on hand, the claim of exemption from capital gains under section 10(37) in this case by Mr. Krishnan is tenable in law.

4. **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 the residential flat at Pune to her friend Ms. Poorna for ₹ 12 lakhs, whereas the stamp duty value was ₹ 20 lakhs. Therefore, stamp duty value shall be deemed to be the full value of consideration for sale of the property. Since the period of holding does not exceed 24 months, the capital gain is short-term. Therefore, short-term capital gain arising to Ms. Leena for assessment year 2018-19 will be ₹ 15 lakhs (i.e., ₹ 20 lakhs - ₹ 5 lakhs).

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 an individual or HUF.

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 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., ₹ 20 lakhs) and the actual consideration (i.e., ₹ 12 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, ₹ 20 lakhs would be taken as the cost of acquisition of the flat. Here again, the stamp duty value on the date of sale has to be considered since the same is higher than actual consideration. Therefore, on sale of the flat by Ms. Poorna, ₹ 12 lakhs (i.e. ₹ 32 lakhs – ₹ 20 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. Accordingly, the capital gain would be short-term, since the period of holding does not exceed 24 months.

5. As per section 45(1A), receipt of insurance compensation in the form of money or any asset is to be treated as consideration and capital gain is accordingly to be charged to tax. The two qualifying conditions prescribed are (a) the compensation should have been received because of damage or destruction of capital asset and (b) the damage or destruction is as a result of, *inter alia*, civil disturbance.

As per the facts of the case, both the conditions are satisfied and therefore, the compensation is to be treated as consideration. Applying section 45(1A), the answers to the issues are:

(i) in the case of damage or destruction as a result of civil disturbance, there is no actual transfer; but it will be treated as deemed transfer and profit and gains from receipt of insurance compensation will be chargeable to tax as capital gain;

(ii) the receipt of insurance compensation of ₹ 12 lakhs has to be treated as consideration in accordance with the provisions of section 45(1A).

(iii) in the instant case, as per the provisions of section 43(6)(c) the receipt of compensation of ₹ 12 lakhs calls for adjustment in the written down value of the block of assets. If the written down value is more than ₹ 12 lakhs, then ₹ 12 lakhs should be deducted from written down value and depreciation would be calculated accordingly. On the other hand, if the written down value is less than ₹ 12 lakh, the difference would be treated as short term capital gain.

6. When a loan is given by a closely held company, it is chargeable to tax as deemed dividend if the loan is given to:

(i) a shareholder (having 10% or more voting power in the company) or

(ii) a concern in which such shareholder is a member or partner and in which he has substantial interest (entitled to 20% of the income of such concern).

The issue under consideration in this case is whether loan to HUF by a closely held company is chargeable to tax as deemed dividend, where the share certificates were in the name of the Karta of the HUF but the annual return mentioned the HUF as a shareholder.

This issue came up before the Supreme Court in *Gopal & Sons (HUF) v. CIT (2017) 391 ITR 1*, wherein it was observed that, in either scenario, section 2(22)(e) would be attracted. If the HUF was the shareholder, as it held more than 10% voting power, the provisions of section 2(22)(e) would be covered under (i) above. If the Karta was the shareholder, the HUF would be the concern in which the Karta is a member, and hence, the case would be covered under (ii) above.

As per *Explanation 3* to section 2(22)(e), "concern" has been defined to mean a HUF, or a firm or an AOP or a BOI or a company. The Supreme Court, accordingly, held that the loan to HUF is to be assessed as deemed dividend under section 2(22)(e).

Applying the rationale of the above Supreme Court ruling to the case on hand, the loan given by Best Fertilizers (P.) Ltd. to Aakash HUF would be deemed as dividend under section 2(22)(e).

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

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

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

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

Accordingly, applying the rationale of the Bombay High Court ruling and the CBDT Circular in this regard to the facts of this case, ABC Ltd. would be entitled to claim deduction under section 80-IBA in respect of the enhanced profits of ₹37.60 lakhs, consequent to disallowance under section 40(a)(ia).

8. **Computation of total income of Mysore Co-operative Society for A.Y.2018-19**

Particulars	₹	₹
I Income from house property		75,000
II Profits and Gains of Business or Profession		
From processing with the aid of power	40,000	
From collective disposal of labour	20,000	
From other business	72,000	
		1,32,000
III Income from Other Sources		
Interest received from another co-operative society	12,000	
Dividend received from another co-operative society	15,000	
		27,000
Gross Total Income		**2,34,000**
***Less:* Deduction under section 80P**		
Interest and dividend from another co-operative society [₹ 12,000 + ₹ 15,000] - fully deductible under section 80P(2)(d)	27,000	
Income from collective disposal of labour – fully deductible under section 80P(2)(a)(vi), assuming that the stipulated conditions are fulfilled.	20,000	
Income from other business ₹ 72,000, deduction restricted to ₹ 50,000 under section 80P(2)(c)(ii)	50,000	
		97,000
Total Income		**1,37,000**

Note: *Since the gross total income exceeds ₹ 20,000, in case of a co-operative society engaged in manufacturing operations with the aid of power, income from house property is not eligible for deduction under section 80P(2)(f)*

9. The issue under consideration in this case is, whether omission to issue notice under section 143(2) is a defect not curable in spite of section 292BB

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

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

10. The issues under consideration are:

(1) whether a firm can be a partner of another firm;

(2) whether the CIT (Appeals) has the power to change the status of assessee.

These issues came up before the Madras High Court in *Mega Trends Inc. v. CIT (2016) 388 ITR 16.* The Court observed that since a partnership firm is a relationship between persons who have agreed to share the profits of the business carried on by all or any of them acting for all, and the term "persons" can connote only natural persons. Since some of the partners are other firms, the assessment cannot be carried out as a firm, as per the Supreme Court's ruling in *Dhulichand Laxminarayan v. CIT (1956) 29 ITR 535*.

The contention of the Commissioner (Appeals) that a firm cannot be a partner of another firm is, therefore, correct.

In *Mega Trends Inc's* case, the Madras High Court further observed that, under section 251(1), the powers of the first appellate authority are co-terminous with those of the Assessing Officer and the appellate authority can do what the Assessing Officer ought to have done and also direct him to do what he had failed to do. If the Assessing Officer had erred in concluding the status of the assessee as a firm, it could not be said that the Commissioner (Appeals) had no jurisdiction to go into the issue. The appeal was in continuation of the original proceedings and unless fetters were placed upon the powers of the appellate authority by express words, the appellate authority could exercise all the powers of the original authority.

The High Court thus, held that the power to change the status of the assessee is available to the assessing authority and when it is not used by him, the appellate authority is empowered to use such power and change the status. The Court relied on a full bench decision of the Madras High Court in *State of Tamil Nadu v. Arulmurugan and Co. reported in [1982] 51 STC 381* to come to such conclusion.

Accordingly, applying the rationale of the Madras High Court ruling to the case on hand, the CIT (Appeals) has the power to change the status of the assessee.

11. Computation of Total Income of LMN Private Ltd. for the A.Y.2018-19

	Particulars	Amount (₹)	
I	**Income from house property**		
	[Rental income from commercial property]		
	Gross Annual Value[3]/Net Annual Value[4]	4,30,000	
	Less: Deduction under section 24(a)		
	30% of Net Annual Value	1,29,000	
			3,01,000
II	**Profits and gains of business and profession**		
	Profits from manufacturing business **[See Working Note below]**	70,88,000	
	Less: Set-off of losses from trading in derivatives in shares in a recognized stock exchange [allowed to be set-off against profits from the business of manufacturing as per section 70(1) since it is not speculative in nature **[See Note below]**	1,80,000	
			69,08,000
III	**Capital Gains**		
	Sale consideration	52,00,000	
	Less: Indexed Cost of Acquisition [₹ 50,00,000 × 272/254]	53,54,331	
	Long-term capital loss to be carried forward to A.Y.2019-20 for set-off against long-term capital gains, if any, in that year	(1,54,331)	
IV	**Income from Other Sources**		
	Rent received from vacant land	2,05,000	
	Interest received on income-tax refund	42,000	
	Excess of issue price of shares over the fair market value of shares is taxable as per section 56(2)(viib) in the case of LMN Private Ltd., not being a company in which public are substantially interested [₹ 40 (i.e., ₹ 100 – ₹ 60) × 1,00,000 shares]	40,00,000	42,47,000
		–	
	Gross Total Income		**1,14,56,000**

[3] Rent received has been taken as the Gross Annual Value (GAV) in the absence of information relating to Municipal Value, Fair Rent and Standard rent.

[4] Since the question does not contain information about municipal taxes paid, the net annual value is the same as the GAV.

	Less: **Deductions under Chapter VI-A**		
	Deduction under section 80G		
	Donation to Swachh Bharat Kosh[5] [qualifies for 100% deduction – assuming that the same has not been spent in pursuance of corporate social responsibility under section 135(5) of the Companies Act, 2013]	70,000	
	Deduction under section 80GGB		
	Contribution to Political Party [Not allowable as deduction since the contribution is made in cash]	Nil	70,000
	Total Income		**1,13,86,000**

Working Note:

Computation of profits and gains from the business of manufacturing

Particulars	Amount (₹)	
Net profit as per statement of profit and loss		77,00,000
Add: **Items debited but to be considered separately or to be disallowed**		
B(ii) Donation paid to Swachh Bharat Kosh, considered separately	70,000	
[not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]		
B(iii) Contribution to political party	1,50,000	
[not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable u/s 37]		
B(iv) Payment to transport contractor	-	
[As per section 194C(6), no tax is required to be deducted at source since the payment is to a transport contractor not having more than 10 goods carriages at any time during the previous year and he has given a declaration to that effect along with his PAN. Hence, disallowance under section 40(a)(ia) for non-deduction of tax at source is not attracted. Also, since payment is made by account payee cheque, no disallowance under section 40A(3) is attracted].		

[5] Assumed to be paid by a mode other than cash

B(v) Bonus to employees [Since the payment is made after the due date of filing return of income, disallowance under section 43B is attracted]	3,20,000	
B(vi) Provision for income-tax (including interest of ₹ 70,000 thereon) [Not allowable as deduction. Disallowance under section 40(a)(ii) is attracted]	4,20,000	
B(viii) Loss from trading in derivatives in shares in a recognized stock exchange [See Note below] [Since loss from trading in derivatives in shares is not related to the business of manufacturing, the same is not incurred wholly and exclusively for this business, and hence, is not allowable as deduction under section 37 while computing profits from the business of manufacturing]	1,80,000	
		11,40,000
		88,40,000
***Add:* Cash Payment for purchase of raw material deemed as income** AI(4) [Since the provision for outstanding bill for purchase of raw material has been allowed as deduction during the P.Y.2016-17, cash payment in excess of ₹ 10,000 against such bill in the P.Y.2017-18 would be deemed as income of P.Y.2017-18 as per section 40A(3A)]		45,000
		88,85,000
***Less:* Expenditure to be allowed**		
B(i) & AI(1) Depreciation [Difference between the normal depreciation of ₹ 16.75 lakhs as per Income-tax Act, 1961 **[See Note below]** and depreciation charged to the statement of profit and loss of ₹ 11.75 lakhs]. ***Note*** – [6]*Printers and scanners form an integral part of the computer system and they cannot be used without the computer. Hence, they are part of the computer*	5,00,000	

[6] *CIT v. BSES Yamuna Powers Ltd (2013) 358 ITR 47 (Delhi)*

<table>
<tr><td>system, they would be eligible for depreciation at the higher rate of 40% applicable to computers including computer software. However, EPABX is not a computer and is, hence, not entitled to higher depreciation@40%[7]
<table>
<tr><th>Particulars</th><th>₹</th></tr>
<tr><td>Depreciation computed as per Income-tax Act, 1961
Less: Depreciation@40% wrongly provided in respect of EPABX = 40% of ₹ 5,00,000</td><td>18,00,000

2,00,000
16,00,000</td></tr>
<tr><td>Add: Depreciation@15% on EPABX = 15% of ₹ 5,00,000</td><td>75,000</td></tr>
<tr><td>Correct Depreciation as per Income-tax Act, 1961</td><td>16,75,000</td></tr>
</table></td><td></td><td></td></tr>
<tr><td>AI(2) Additional depreciation on new plant and machinery
Since plant and machinery was purchased only on 18.11.2017, it was put to use for less than 180 days during the year. Hence additional depreciation is to be restricted to 10% (i.e., 50% of 20%) of ₹ 34 lakhs.[8]</td><td>3,40,000</td><td></td></tr>
<tr><td>AI(3) Audit Fees relating to P.Y.2016-17
[₹ 30,000, being 30% of audit fees of ₹ 1,00,000 provided for in the books of account of F.Y.2016-17 would have been disallowed due to non-deduction of tax at source. Since tax has been deducted in September, 2017 and paid on 6.10.2017, the amount of ₹ 30,000 is deductible while computing business income of P.Y.2017-18].</td><td>30,000</td><td></td></tr>
<tr><td>B(vii) Contribution to University
[Contribution to a University approved and notified under section 35(1)(ii) would qualify for weighted deduction@150%. Since ₹ 1,00,000 has already been debited to the statement of profit and loss, the balance ₹ 50,000 has to be deducted while computing business income]</td><td>50,000</td><td>9,20,000</td></tr>
<tr><td></td><td></td><td>79,65,000</td></tr>
</table>

[7] *Federal Bank Ltd. v. ACIT (2011) 332 ITR 319 (Kerala)*

[8] Balance additional depreciation of ₹ 3.40 lakhs can be claimed in the next year i.e., A.Y.2019-20

Less: **Items credited to statement of profit and loss, but not includible in business income.**		
A(i) Rent received from vacant land [Chargeable to tax under the head "Income from other sources"]	2,05,000	
A(ii) Rent received from commercial property owned by the company [Chargeable to tax under the head "Income from house property"]	4,30,000	
A(iii) Interest received on income tax refund **[**Chargeable to tax under the head "Income from other sources"]	42,000	
A(iv) Profit on sale of unused land [Chargeable to tax under the head "Capital Gains"]	2,00,000	
		8,77,000
Profits and gains from the business of manufacturing		**70,88,000**

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

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

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

12. Computation of total income of PQR LLP

Particulars	₹ (in lakh)
Profit from Unit P [₹ 502 lakhs + ₹ 24 lakhs, being disallowance u/s 43B]	526
Profit from Unit Q [₹ 753 lacs + ₹ 47 lacs, being disallowance u/s 40A(3)]	800
	1326
Less: Deduction under section 10AA [**See Working Note below**]	348
Total Income	**978**

Particulars	₹ (in lakh)
Tax on total income@30%	293.40
Add: Surcharge@12%, since total income > ₹1 crore	35.21
	328.61
Add: Education cess @2% & SHEC@1%	9.85
Tax liability (as per normal provisions)	338.46

Computation of Adjusted total income and Alternate Minimum tax of PQR LLP as per the provisions of section 115JC for A.Y. 2018-19

Particulars	₹ (in lakh)
Total income as per the normal provisions	978
Add: Deduction under section 10AA	348
Adjusted Total Income	1326
Tax@18.5% of Adjusted Total Income	254.31
Add: Surcharge @12% as the adjusted total income is > ₹ 1 crore	29.44
	274.75
Add: Education cess @2% & SHEC @1%	8.24
Alternate Minimum Tax as per section 115JC	**282.99**

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 ₹ 338.46 lakhs.

Working Note:

Computation of deduction under section 10AA in respect of Unit P located in a SEZ

Particulars	₹ (in lacs)
Total turnover of Unit P =	**1200**
(₹ 1200 lacs + ₹ 200 lacs) – ₹ 200 lacs, being freight and insurance included therein. Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also [9]	
Export Turnover of Unit P	
Export sale proceeds received in India	1040
Less: Insurance and freight not includible in export turnover	140
	900

[9] *CIT v. Dell International Services India P. Ltd. (2012) 206 Taxman 107 (Karnataka)*

Profit "derived from" Unit P		
Net profit for the year		502
Add: Disallowance under section 43B		24
		526
***Less**:* Items of business income which are in the nature of ancillary profits and hence, do not constitute profit 'derived from' business for the purpose of deduction under section 10AA		
Duty drawback	38	
Profit on sale of import entitlement	24	
		62
		464
Deduction under section 10AA		
Profit derived from Unit P x $\frac{\text{Export turnover of Unit P}}{\text{Total turnover of Unit P}}$ x 100%		
= 100% of 464 x 900/1200 =		**348**

13. **(a) The first contention of Mr. Vishwas is not correct.**

Section 139(1) requires every resident other than not ordinarily resident, who at any time during the previous year, holds as a beneficial owner or otherwise, any asset (including financial interest in any entity) located outside India or has signing authority in any account located outside India or is a beneficiary of any asset located outside India, to file a return of income compulsorily whether or not he has income chargeable to tax.

Mr. Vishwas has a house property in Abu Dhabi and a bank account in the Bank of Abu Dhabi. Therefore, Mr. Vishwas has to file his return of income mandatorily for the A.Y.2018-19, even though his total income of ₹ 2,95,000, comprising solely of income from house property and bank interest, is less than the basic exemption limit of ₹ 3,00,000 applicable to a senior citizen.

(b) Mr. Vishwas's second contention is also not correct.

Income chargeable to tax shall be deemed to have escaped assessment for the purpose of section 147, where a person is found to have any asset (including financial interest in any entity) located outside India. Accordingly, the Assessing Officer can serve a notice under section 148 on such assessee requiring him to furnish a return of income within the specified period, for the purpose of making an assessment, reassessment or re-computation under section 147.

Further, section 149 prescribes an extended time limit of sixteen years for issue of notice under section 148, in case income in relation to such assets located outside India has escaped assessment.

In this case, since Mr. Vishwas has a house property located outside India in the P.Y.2008-09, income is deemed to have escaped assessment for A.Y.2009-10. Notice under section 148 issued to Mr. Vishwas in September 2017 in respect of A.Y.2009-10 is valid, since the extended time limit of sixteen years from the end of the relevant assessment year has not expired.

14. The Assessing Officer can exercise his power of survey under section 133A only after obtaining the approval of the Joint Commissioner or Joint Director, as the case may be. Assuming that he has obtained such approval in this case, he is empowered under section 133A to enter any place of business of the assessee within his jurisdiction only during the hours at which such place is open for the conduct of business.

In the case given, the restaurant is open from 8.00 a.m. to 11.30 p.m. for the conduct of business. The Assessing Officer entered the restaurant at 10.15 p.m. which falls within the working hours of the restaurant. Therefore, the claim made by the owner to the effect that the Assessing Officer could not enter the restaurant after sunset is not valid.

Further, as per section 133A(3)(ia), the Assessing Officer may, impound and retain in his custody for such period as he thinks fit, any books of account or other documents inspected by him. However, he shall not impound any books of account or other documents except after recording his reasons for doing so. He shall not retain in his custody any such books of account or other documents for a period exceeding 15 days (exclusive of holidays) without obtaining the approval of the Principal Chief Commissioner or Chief Commissioner or Principal Director General or Director General or Principal Commissioner or Commissioner or Principal Director or Director therefor, as the case may be. The proposed action of the Assessing Officer is valid provided he satisfies the stipulated conditions.

15. Computation of taxable income of Medicare Trust for A.Y. 2018-19

Particulars	₹	
Income from running of hospitals	1,08,00,000	
Income from medical college [exempt u/s 10(23C)(iiiad)]	Nil	
Donation other than anonymous donation of ₹ 2,00,000 taxable @30% (₹ 3,00,000, being reduced by 5% of ₹ 8,00,000 or ₹ 1,00,000, whichever is higher)[10] [₹ 8,00,000 – ₹ 2,00,000]	6,00,000	1,14,00,000

[10] A view is taken that 15% of ₹ 1 lakh, representing anonymous donations exempt from applicability of 30% tax, is also eligible for retention/accumulation without conditions in line with other voluntary contributions. A contrary view may also be possible due to the language used in section 13(7).

Less: 15% of income of ₹ 114 lakhs accumulated or set apart under section 11(1)(a)		17,10,000
		96,90,000
Less: Amount applied for the purposes of hospital		93,50,000
		3,40,000
Add: Amount accumulated for extension of a hospital but not spent deemed to be income under section 11(3) (₹ 20 lakhs – ₹ 15 lakhs) **(See Note 1 below)**		5,00,000
		8,40,000
Add: Anonymous donation taxable @30% under section 115BBC **(See Note 2 below)**		2,00,000
Total Income		**10,40,000**
Tax on total income		
Tax on anonymous donation of ₹ 2 lacs at 30% **(See Note 2 below)**		60,000
Tax on other income of ₹ 8,40,000 at normal rates		
Upto ₹ 2,50,000	Nil	
Over ₹ 2,50,000 up to ₹ 5,00,000 @ 5%	12,500	
Over ₹5,00,000 upto ₹8,40,000@20%	68,000	80,500
		1,40,500
Education cess @2%		2,810
Secondary and higher education cess@1%		1,405
Tax payable		**1,44,715**
Tax payable (rounded off)		**1,44,720**

Notes:

(1) Section 11(3) provides that if the income accumulated for certain purpose is not utilized for the said purpose within the period (not exceeding 5 years) for which it was accumulated, or in the year immediately following the expiry thereof, then the unutilised amount is deemed to be the income of the charitable institution for the previous year immediately following the expiry of the period of accumulation. In the instant case, Medicare Trust accumulated ₹ 20,00,000 in the previous year 2011-12 for extension of one of its hospitals for a period of 5 years. Period of accumulation thus expired on 31.3.2017. The assessee has spent ₹ 15,00,000 out of accumulated sum of ₹ 20,00,000 up to 31.3.2017. Therefore, the unutilised

amount of ₹ 5,00,000, which is not utilized in the P.Y.2017-18 also, is deemed to be income of the previous year 2017-18 (A.Y. 2018-19).

(2) Only the anonymous donations in excess of the exemption limit specified below would be subject to tax@30% under section 115BBC.

The exemption limit is the higher of the following –

(1) 5% of the total donations received by the assessee [i.e., ₹ 40,000 (5% x ₹ 8 lakhs)]; or

(2) ₹ 1 lakh.

Therefore, in this case the exemption would be ₹ 1 lakh.

The total tax payable by such institution would be –

(1) tax@30% on the anonymous donations exceeding the exemption limit as calculated above [i.e., tax@30% on ₹ 2,00,000, being ₹ 3,00,000 – ₹ 1,00,000)]; and

(2) tax on the balance income i.e., total income as reduced by ₹ 2,00,000, being the aggregate amount of anonymous donations in excess of ₹ 1 lakh.

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

In respect of sale of premium model cars (of value ranging above ₹ 10 lakhs and upto ₹25 lakhs) by dealers to retail customers, tax has to be collected at source@1% under section 206C(1F), even if no part of the consideration is received in cash.

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

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

(ii) Purchase of tangible property falls within the scope of "international transaction". Tangible property includes commodity. Cylo AG and Omega Ltd. are associated enterprises under section 92A, since Cylo AG is a holding company of Omega Ltd.. Therefore, purchase of commodities by Omega Ltd., an Indian company, from Cylo AG, a German company, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

(iii) Unit E is eligible for deduction@100% of the profits derived from its eligible business (i.e., the business of developing an infrastructure facility, namely, a highway project in this case) under section 80-IA. However, Unit F is not engaged in any "eligible business". Since Unit F has transferred steel to Unit E at a price lower than the fair market value, it is an inter-unit transfer of goods between eligible business and other business, where the consideration for transfer does not correspond with the market value of goods. Therefore, this transaction would fall within the meaning of "specified domestic transaction" to attract transfer pricing provisions, since the aggregate value of such transactions during the year exceeds a sum of ₹ 20 crore.

(iv) In this case, salary payment has been made to a related person referred to in section 40A(2)(b) i.e., relative (i.e., daughter) of Ms. Geetha, who is a director of Theta Ltd. However, with effect from A.Y.2018-19, section 92BA has been amended to exclude such transactions from the scope of "specified domestic transaction". Consequently, transfer pricing provisions would not be attracted in this case.

(v) The scope of the term "intangible property" has been amplified to include, *inter alia*, technical knowhow, which is a technology related intangible asset. Transfer of intangible property falls within the scope of the term "international transaction". Since Alcatel Lucent, a French company, guarantees not less than 10% of the borrowings of Y Ltd., an Indian company, Alcatel Lucent and Y Ltd. are deemed to be associated enterprises under section 92A(2). Therefore, since transfer of technical knowhow by Y Ltd., an Indian company, to Alcatel Lucent, a French company, is an international transaction between associated enterprises, the provisions of transfer pricing are attracted in this case.

18. This issue came up before the AAR in, *Nuclear Power Corporation of India Ltd. In Re, [2012] 343 ITR 220*, wherein it was held that an advance ruling is not only applicant specific, but is also transaction specific. The advance ruling is on a transaction entered into or undertaken by the applicant. That is why section 245S specifies that a ruling is binding on the applicant, **the transaction** and the Principal Commissioner or Commissioner of Income-tax and those subordinate to him, and not only on the applicant.

What is barred by the first proviso to section 245R(2) of the Act in the context of clause (i) thereof is the allowing of an application under section 245R(2) of the Act where "the question raised in the application is already pending before any Income-tax authority, or

Appellate Tribunal or any court". The significance of the dropping of the words, "in the applicant's case" with effect from June 1, 2000, cannot be wholly ignored.

On the basis of this view expressed by the AAR in the above case, explaining the impact of the dropping of the words "in the applicant's case" with effect from 1.6.2000, a view can be taken that the AAR can reject the application made by Phi plc before the AAR on the ground that similar issue is pending before the Assessing Officer in respect of the same transaction i.e., provision of technical know to Beta Ltd.

***Note** – The issue relates to the admission or rejection of the application filed before the Advance Rulings Authority on the grounds specified in clause (i) of the first proviso to sub-section (2) of section 245R of the Income-tax Act, 1961.*

The first proviso to section 245R(2) has been substituted by the Finance Act, 2000 with effect from 1.6.2000. Clause (i) of the first proviso, prior to and post amendment, reads as follows:

Prior to 1.6.2000	***On or After 1.6.2000***
*Provided that the Authority shall not allow the application **except in the case of a resident applicant** where the question raised in the application is already pending **in the applicant's case** before any income-tax authority, the Appellate Tribunal or any court;*	*Provided that the Authority shall not allow the application where the question raised in the application is already pending before any income-tax authority or Appellate Tribunal or any court.*

*The words "except in the case of a resident applicant" and "in the applicant's case" has been removed in clause (i) of the first proviso with effect from 1.6.2000. However, the Explanatory Memorandum to the Finance Act, 2000, explaining the impact of the substitution, reads as follows "It is proposed to substitute the proviso to provide that the Authority shall not allow the application when the question raised is already pending in the applicant's case before any income-tax authority, Appellate Tribunal or any court in regard to a non-resident applicant and resident applicant in relation to a transaction with a non-resident". Therefore, according to the intent expressed in the Explanatory Memorandum, the AAR shall not allow the application both in the case of resident and non-resident applicant if the question raised is already **pending in the applicant's case** before any income-tax authority. Thus, as per the Explanatory Memorandum, it is possible to take a view that even post-amendment, the Authority shall not allow the application where a question is **pending in the applicant's case** before any income-tax authority. Thus, an alternative view is possible on the basis of the AAR ruling in Ericsson Telephone Corporation India AB v. CIT (1997) 224 ITR 203, which continues to hold good even after the amendment, if we consider the intent expressed in the Explanatory Memorandum. **Accordingly, based on this view, the AAR can allow the application made by Phi plc, even if the question raised in the application is pending before the Assessing Officer in Beta Ltd.'s case**.*

19. **Computation of total income of Mr. Ranjit for A.Y.2018-19**

Particulars	₹	₹
Income from House Property [House situated in Country Q]		
Gross Annual Value[11]	3,20,000	
Less: Municipal taxes (assumed as paid in that country)	12,000	
Net Annual Value	3,08,000	
Less: Deduction under section 24 – 30% of NAV	92,400	
		2,15,600
Profits and Gains of Business or Profession		
Income from profession carried on in India	6,20,000	
Less: Business loss in Country Q set-off[12]	70,000	
	5,50,000	
Royalty income from a literary book from Country P (after deducting expenses of ₹ 30,000)	4,90,000	10,40,000
Income from Other Sources		
Agricultural income in Country P	82,000	
Dividend received from a company in Country Q	97,000	
		1,79,000
Gross Total Income		**14,34,600**
***Less:* Deduction under Chapter VIA**		
Under section 80QQB – Royalty income of a resident from literary work[13]		3,00,000
Total Income		**11,34,600**

Computation of tax liability of Mr. Ranjit for A.Y.2018-19

Particulars	₹
Tax on total income [30% of ₹ 1,34,600 + ₹ 1,12,500]	1,52,880

[11] Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

[12] As per section 70(1), inter-source set-off of income is permitted.

[13] It is assumed that the royalty earned outside India has been brought into India in convertible foreign exchange within a period of six months from the end of the previous year.

Add: Education cess@2%	3,058
Secondary and higher education cess @ 1%	1,529
	1,57,466
Less: Rebate under section 91 **(See Working Note below)**	66,313
Tax Payable	**91,153**
Tax payable (rounded off)	91,150

Working Note:

Calculation of Rebate under section 91	**₹**	**₹**
Average rate of tax in India [i.e., ₹ 1,57,466 / ₹ 11,34,600 x 100]	**13.88%**	
Average rate of tax in Country P	**12%**	
Doubly taxed income pertaining to Country P		
Agricultural Income	82,000	
Royalty Income [₹ 5,20,000 – ₹ 30,000 (Expenses) – ₹ 3,00,000 (deduction under section 80QQB)][14]	1,90,000	
	2,72,000	
Rebate under section 91 on ₹ 2,72,000 @12% [being the lower of average Indian tax rate (13.88%) and foreign tax rate (12%)]		32,640
Average rate of tax in Country Q	**15%**	
Doubly taxed income pertaining to Country Q		
Income from house property	2,15,600	
Dividend	97,000	
	3,12,600	
Less: Business loss set-off	70,000	
	2,42,600	
Rebate under section 91 on ₹ 2,42,600 @13.88% (being the lower of average Indian tax rate (13.88%) and foreign tax rate (15%)]		33,673
Total rebate under section 91 (Country P + Country Q)		**66,313**

[14] Doubly taxed income includes only that part of income which is included in the assessees total income. The amount deducted under Chapter VIA is not doubly taxed and hence, no relief is allowable in respect of such amount – *CIT v. Dr. R.N. Jhanji (1990) 185 ITR 586 (Raj.).*

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

(a) He is a resident in India during the relevant previous year (i.e., P.Y.2017-18).

(b) The income in question accrues or arises to him outside India in foreign countries P and Q during that previous year and such income is not deemed to accrue or arise in India during the previous year.

(c) The income in question has been subjected to income-tax in the foreign countries P and Q in his hands and it is presumed that he has paid tax on such income in those countries.

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

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

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

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

(a) In this case, since India does not have a DTAA with Country A, of which Tom Sawyer is a resident, the fees for technical services (FTS) received from Ganga Ltd., an Indian company, would be taxable @10%, by virtue of section 115A.

(b) In this case, the FTS from Ganga Ltd. would be taxable @5%, being the rate specified in the DTAA, even though section 115A provides for a higher rate of tax, since the tax rates specified in the DTAA are more beneficial. However, since Tom Sawyer is a non-resident, he has to furnish a tax residency certificate from the Government of Country A for claiming such benefit. Also, he has to furnish other information, namely, his nationality, his tax identification number in Country A and his address in Country A.

(c) In this case, the FTS from Ganga Ltd. would be taxable @10% as per section 115A, even though DTAA provides for a higher rate of tax, since the provisions of the Act (i.e. section 115A in this case) are more beneficial.

If Mr. Tom Sawyer has a fixed place of profession in India, and he renders technical services through the fixed place of profession, then, by virtue of section 44DA, such income by way of fees for technical services received by Mr. Tom Sawyer from Ganga Ltd., India, would be computed under the head "Profits and gains of business or profession" in accordance with the provisions of Income-tax Act, 1961, since technical services are provided from a fixed place of profession situated in India and fees for technical services is received from an Indian concern in pursuance of an agreement with the non-resident and is effectively connected with such fixed place of profession. No deduction would, however, be allowed in respect of any expenditure or allowance which is not wholly and exclusively incurred for the fixed place of profession in India.

Mr. Tom Sawyer is required to keep and maintain books of account and other documents in accordance with the provisions contained in section 44AA and get his accounts audited by an accountant and furnish the report of such audit in the prescribed form duly signed and verified by such accountant along with the return of income.

It may be noted that the concessional rate of tax@10% under section 115A would not apply in this case.

PAPER – 8 : INDIRECT TAX LAWS

QUESTIONS

(1) All questions should be answered on the basis of the position of GST law as amended up to 30.04.2018 and customs law as amended by the Finance Act, 2017 and notifications and circulars issued till 30.04.2018.

(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. 'All-in-One Store' is a chain of departmental store having presence in almost all metro cities across India. Both exempted as well as taxable goods are sold in such Stores. The Stores operate in rented properties. All-in-One Stores pay GST under regular scheme.

   In Mumbai, the Store operates in a rented complex, a part of which is used by the owner of the Store for personal residential purpose.

   All-in-One Store, Mumbai furnishes following details for the month of October, 20XX:

   (i) Aggregate value of various items sold in the Store:

   Taxable items – ₹ 42,00,000

   Items exempted vide a notification – ₹ 12,00,000

   Items not leviable to GST – ₹ 3,00,000

   (ii) Mumbai Store transfers to another All-in-One Store located in Goa certain taxable items for the purpose of distributing the same as free samples. The value declared in the invoice for such items is ₹ 5,00,000. Such items are sold in the Mumbai Store at ₹ 8,00,000.

   (iii) Aggregate value of various items procured for being sold in the Store:

   Taxable items – ₹ 55,00,000

   Items exempted vide a notification – ₹ 15,00,000

   Items not leviable to GST – ₹ 5,00,000

   (iv) Freight paid to goods transport agency (GTA) for inward transportation of taxable items – ₹ 1,00,000

   (v) Freight paid to GTA for inward transportation of exempted items – ₹ 80,000

   (vi) Freight paid to GTA for inward transportation of non-taxable items - ₹ 20,000

(vii) Monthly rent payable for the complex – ₹ 5,50,000 (one third of total space available is used for personal residential purpose).

(viii) Activity of packing the items and putting the label of the Store along with the sale price has been outsourced. Amount paid for packing of all the items - ₹ 2,50,000

(ix) Salary paid to the regular staff at the Store - ₹ 2,00,000

(x) GST paid on inputs used for personal purpose – ₹ 5,000

(xi) GST paid on rent a cab services availed for business purpose – ₹ 4,000.

(xii) GST paid on items given as free samples – ₹ 4,000

Given the above available facts, you are required to compute the following:

A. Input tax credit (ITC) credited to the Electronic Credit Ledger

B. Common Credit

C. ITC attributable towards exempt supplies out of common credit

D. Eligible ITC out of common credit

E. Net GST liability for the month of October, 20XX

Note:

(1) Wherever applicable, GST under reverse charge is payable @ 5% by All-in-One Stores. Rate of GST in all other cases is 18%.

(2) All the sales and purchases made by the Store are within Maharashtra. All the purchases are made from registered suppliers. All the other expenses incurred are also within the State.

(3) Wherever applicable, the amounts given are exclusive of taxes.

(4) All the necessary conditions for availing the ITC have been complied with.

2. XYZ Ltd., New Delhi, manufactures biscuits under the brand name 'Tastypicks'. Biscuits are supplied to wholesalers and distributors located across India on FOR basis from the warehouse of the company located at New Delhi. The company uses multiple modes of transport for supplying the biscuits to its customers spread across the country. The transportation cost is shown as a line item in the invoice and is billed to the customers with a mark-up of 2% on total amount of freight paid (inclusive of taxes).

Flour used for the production process is procured from vendors located in Madhya Pradesh on ex-factory basis. The company engages goods transport agencies (GTA) to transport the flour from the factories of the vendors to its factory located in New Delhi.

The company has provided the following data relating to transportation of biscuits and flour in the month of April 20XX:

- For sales within the NCR region (₹ 20,00,000), the company arranged a local mini-van belonging to an individual and paid him ₹ 54,000.
- For sales to locations in distant States (₹ 1,78,00,000), the company booked the goods by Indian Railways and paid rail freight of ₹ 3,17,000.
- For sales to locations in neighbouring States (₹ 55,00,000), the company booked the goods by road carriers (GTAs) and paid road freight of ₹ 3,73,000. Out of the total sales to neighbouring States, goods worth ₹ 10,00,000 were booked through a GTA which paid tax @ 12%. Freight of ₹ 73,000 was paid to such GTA.
- For purchase of flour from Madhya Pradesh (₹ 25,00,000), the company booked the goods by a GTA and paid road freight of ₹ 55,000.
- For purchase of butter from Punjab (₹ 15,00,000), the company booked the goods by a GTA and paid road freight of ₹ 35,000.
- For local purchase of baking powder, the company booked the goods by a GTA in a single carriage and paid road freight of ₹ 1,500.
- For transferring the biscuits (open market value - ₹ 4,00,000) to one of its sister concern in Rajasthan, the company booked the goods by a GTA and paid road freight of ₹ 40,000.

  (i) Based on the particulars given above, compute the GST payable on the amount paid for transportation by XYZ Ltd. when it avails the services of different transporters.

  (ii) Compute the GST charged on transportation cost billed by the company to its customers.

Note: - Assume the rate of GST on transportation of goods and biscuits to be 5% and 12% respectively [except where any other rate is specified in the question].

3. Rolex Forex Private Limited, registered in Delhi, is a money changer. It has undertaken the following purchase and sale of foreign currency:

   (i) 1,000 US $ are purchased from Rajesh Enterprises at the rate of ₹ 68 per US $. RBI reference rate for US $ on that day is ₹ 68.60.

   (ii) 2,000 US $ are sold to Sriniti at the rate of ₹ 67.50 per US$. RBI reference rate for US $ for that day is not available.

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

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

   (B) rule 32(2)(b) of the CGST Rules, 2017.

4. Jaskaran, a registered supplier of Delhi, has made the following supplies in the month of January, 20XX:

S. No.	Particulars	Amount* (₹)
(i)	Supply of 20,000 packages at ₹ 30 each to Sukhija Gift Shop in Punjab [Each package consists of 2 chocolates, 2 fruit juice bottles and a packet of toy balloons]	6,00,000
(ii)	10 generators hired out to Morarji Banquet Halls, Chandigarh [including cost of transporting the generators (₹ 1,000 for each generator) from Jaskaran's warehouse to the Morarji Banquet Halls]	2,50,000
(iii)	500 packages each consisting of 1 chocolate and 1 fruit juice bottle given as free gift to Delhi customers on the occasion of Diwali [Cost of each package is ₹ 12, but the open market value of such package of goods and of goods of like kind and quality is not available. Input tax credit has not been taken on the items contained in the package]	
(iv)	Catering services provided free of cost for elder brother's business inaugural function in Delhi [Cost of providing said services is ₹ 55,000, but the open market value of such services and of services of like kind and quality is not available.]	

*excluding GST

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

1. Penalty of ₹ 10,000 was collected from Sukhija Gift Shop for the payment received with a delay of 10 days.
2. The transportation of the generators from Jaskaran's warehouse to the customer's premises is arranged by Jaskaran through a Goods Transport Agency (GTA) who pays tax @ 12%.
3. Assume the rates of GST to be as under:

Goods/services supplied	CGST	SGST	IGST
Chocolates	9%	9%	18%
Fruit juice bottles	6%	6%	12%
Toy balloons	2.5%	2.5%	5%

Service of renting of generators	9%	9%	18%
Catering service	9%	9%	18%

5. (i) Parth of Pune, Maharashtra enters into an agreement to sell goods to Bakul of Bareilly, Uttar Pradesh. While the goods were being packed in Pune godown of Parth, Bakul got an order from Shreyas of Shimoga, Karnataka for the said goods. Bakul agreed to supply the said goods to Shreyas and asked Parth to deliver the goods to Shreyas at Shimoga.

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

   (ii) Damani Industries has recruited Super Events Pvt. Ltd., an event management company of Gujarat, for organising the grand party for the launch of its new product at Bangalore. Damani Industries is registered in Mumbai. Determine the place of supply of the services provided by Super Events Pvt. Ltd. to Damani Industries.

   Will your answer be different if the product launch party is organised at Dubai?

6. Oberoi Industries is a manufacturing company registered under GST. It manufactures two taxable products 'X' and 'Y' and one exempt product 'Z'. The turnover of 'X', 'Y' and 'Z' in the month of April, 20XX was ₹ 2,00,000, ₹ 10,00,000 and ₹ 12,00,000. Oberoi Industries is in possession of certain machines and purchases more of them. Useful life of all the machines is considered as 5 years.

   From the following particulars furnished by it, compute the amount to be credited to the electronic credit ledger of Oberoi Industries and amount of common credit attributable towards exempted supplies, if any, for the month of April, 20XX.

Particulars	GST paid (₹)
Machine 'A' purchased on 01.04.20XX for being exclusively used for non-business purposes	19,200
Machine 'B' purchased on 01.04.20XX for being exclusively used in manufacturing zero- rated supplies	38,400
Machine 'C' purchased on 01.04.20XX for being used in manufacturing all the three products – X, Y and Z	96,000
Machine 'D' purchased on April 1, 2 years before 01.04.20XX for being exclusively used in manufacturing product Z. From 01.04.20XX, such machine will also be used for manufacturing products X and Y.	1,92,000
Machine 'E' purchased on April 1, 3 years before 01.04.20XX for being exclusively used in manufacturing products X and Y. From 01.04.20XX, such machine will also be used for manufacturing product Z.	2,88,000

7. Shiva Medical Centre, a Multi-speciality hospital, is a registered supplier in Mumbai. It hires senior doctors and consultants independently, without entering into any employer-employee agreement with them. These doctors and consultants provide consultancy to the in-patients - patients who are admitted to the hospital for treatment – without there being any contract with such patients. In return, they are paid the consultancy charges by Shiva Medical Centre.

   However, the money actually charged by Shiva Medical Centre from the in-patients is higher than the consultancy charges paid to the hired doctors and consultants. The difference amount retained by the hospital, i.e. retention money, includes charges for providing ancillary services like nursing care, infrastructure facilities, paramedic care, emergency services, checking of temperature, weight, blood pressure, etc.

   Further, Shiva Medical Centre has its own canteen – Annapurna Bhawan - which supplies food to the in-patients as advised by the doctor/nutritionists as also to other patients (who are not admitted) or their attendants or visitors.

   The Department took a stand that senior doctors and consultants are providing services to Shiva Medical Centre and not to the patients. Hence, their services are not the health care services and must be subject to GST. Further, GST is applicable on the retention money kept by Shiva Medical Centre as well as on the services provided by its canteen - Annapurna Bhawan alleging that such services are not the health care services.

   You are required to examine whether the stand taken by the Department is correct provided the services provided by Shiva Medical Centre are intra-State services.

8. Shubhlaxmi Foods is engaged in supplying restaurant service in Maharashtra. In the preceding financial year, it has a turnover of ₹ 90 lakh from the restaurant service and ₹ 10 lakh from the supply of farm labour in said State. Further, it has also earned a bank interest of ₹ 10 lakh from the fixed deposits.

   Shubhlaxmi Foods wishes to opt for composition scheme in the current year. You are required to advise Shubhlaxmi Foods on the same.

   Would your answer be different if Shubhlaxmi Foods is engaged in milling of paddy into rice on job work basis instead of supply of farm labour and the turnover from the said activity is ₹ 9 lakh?

9. Subharti Enterprises collected GST on the goods supplied by it from its customers on the belief that said supply is taxable. However, later it discovered that goods supplied by it are exempt from GST.

   The accountant of Subharti Enterprises advised it that the amount mistakenly collected by Subharti Enterprises representing as tax was not required to be deposited with Government. Subharti Enterprises has approached you for seeking the advice on the same. You are required to advise it elaborating the relevant provisions.

10. Answer the following questions:

    (1) Radhaswamy owns and supplies certain goods costing ₹ 30,00,000 in a conveyance hired from Manikaran Transporters. Market value of said goods is ₹ 40,00,000 and tax chargeable thereon is ₹ 4,80,000.

    The goods supplied by Radhaswamy and the conveyance [owned by Manikaran Transporters] used for carriage of such goods are confiscated since Radhaswamy has supplied said goods in contravention of the provisions of the CGST Act, 2017 with an intent to evade payment of tax.

    However, the proper officer intends to give an option to Radhaswamy and Manikaran Transporters to pay in lieu of confiscation, a fine leviable under section 130 of the CGST, Act, 2017.

    Determine the maximum amount of the fine in lieu of confiscation on:

    (a) the goods liable for confiscation.

    (b) the conveyance used for carriage of such goods.

    (2) Raghuraman is a registered supplier in Madhya Pradesh. He failed to pay the GST amounting to ₹ 7,400 for the month of January, 20XX. The proper officer imposed a penalty on Raghuraman for failure to pay tax. Raghuraman believes that it is a minor breach and in accordance with the provisions of section 126 of the CGST Act, 2017, no penalty is imposable for minor breaches of tax regulations. Examine the correctness of Raghuraman's claim.

11. Super Engineering Works, a registered supplier in Haryana, is engaged in supply of taxable goods within the State. Given below are the details of the turnover and applicable GST rates of the final products manufactured by Super Engineering Works as also the input tax credit (ITC) availed on inputs used in manufacture of each of the final products and GST rates applicable on the same, during a tax period:

Products	Turnover* (₹)	Output GST Rates	ITC availed (₹)	Input GST Rates
A	500,000	5%	54,000	18%
B	350,000	5%	54,000	18%
C	100,000	18%	10,000	18%

*excluding GST

Determine the maximum amount of refund of the unutilized input tax credit that Super Engineering Works is eligible to claim under section 54(3)(ii) of the CGST Act, 2017 provided that Product B is notified as a product, in respect of which no refund of unutilised input tax credit shall be allowed under said section.

12. Jai, a registered supplier, runs a general store in Ludhiana, Punjab. Some of the goods sold by him are exempt whereas some are taxable. You are required to advise him on the following issues:
    (i) Whether Jai is required to issue a tax invoices in all cases, even if he is selling the goods to the end consumers?
    (ii) Jai sells some exempted as well as taxable goods valuing ₹ 5,000 to a school student. Is he mandatorily required to issue two separate GST documents?
    (iii) Jai wishes to know whether it's necessary to show tax amount separately in the tax invoices issued to the customers. You are required to advise him.

13. Kulbhushan & Sons has entered into a contract to supply two consignments of certain taxable goods. However, since it is unable to determine the value of the goods to be supplied by it, it applies for payment of tax on such goods on a provisional basis along with the required documents in support of its request.

    On 12.01.20XX, the Assistant Commissioner of Central Tax issues an order allowing payment of tax on provisional basis indicating the value on the basis of which the assessment is allowed on provisional basis and the amount for which the bond is to be executed and security is to be furnished.

    Kulbhushan & Sons complies with the same and supplies both the consignments of goods on 25.01.20XX thereafter paying the tax on provisional basis in respect of both the consignments on 19.02.20XX.

    Consequent to the final assessment order passed by the Assistant Commissioner of Central Tax on 21.03.20XX, a tax of ₹ 1,80,000 becomes due on 1st consignment whereas a tax of ₹ 4,20,000 becomes refundable on 2nd consignment.

    Kulbhushan & Sons pays the tax due on 1st consignment on 09.04.20XX and applies for the refund of the tax on 2nd consignment same day. Tax was actually refunded to it on 05.06.20XX.

    Determine the interest payable and receivable, if any, by Kulbhushan & Sons in the above case.

14. With reference to section 108 of the CGST Act, 2017, elaborate whether a CGST/SGST authority can revise an order passed by his subordinates.

15. Discuss the liability to pay in case of an amalgamation/merger under section 87 of the CGST Act, 2017.

16. Unicalp Textile Industries imported a machine from Eureka Engineering Works Ltd., New Jersey for dyeing the fabric. The price of the machine was settled at US $ 25,000. The machine was shipped on 10.02.20XX. Meanwhile, Unicalp Textile Industries negotiated for a reduction in the price.

As a result, Eureka Engineering Works Ltd. agreed to reduce the price by $ 4,250 and sent the revised price of $ 20,750 on 15.02.20XX. The machine arrived in India on 18.02.20XX. The Commissioner of Customs decided to take the original price of $ 25,000 as the transaction value of the goods on the ground that the price is reduced only after the goods have been shipped.

Do you agree to the stand taken by the Commissioner? Give reasons in support of your answer with the help of a decided case law, if any.

17. Abhimanyu Enterprises, India imported a machine costing US $ 17,000 from George Corp., US through a vessel. Determine the assessable value of the said machine under the Customs Act, 1962 with the help of the additional information given below:

		US $
(i)	Transport charges from the factory of George Corp. to the port for shipment	850
(ii)	Freight charges from US to India	1,700
(iii)	Handling charges paid for loading the machine in the ship	85
(iv)	Buying commission paid by Abhimanyu Enterprises	85
(v)	Exchange rate to be considered: 1$ = ₹ 60	
(vi)	Actual insurance charges paid are not ascertainable	

18. Raghupati Energy Corporation had imported certain goods and got them cleared for home consumption. Subsequently, the Department discovered that import of such goods was prohibited under the Customs Act, 1962. Consequently, the goods were confiscated under section 111 of the Customs Act, 1962 and a penalty was levied under section 112 of the said Act.

    Examine the veracity of confiscation of the goods and imposition of penalty by the Department, in the given case, with the help of a decided case law, if any.

19. Explain with reference to the Customs Act, 1962, the conditions to be fulfilled for filing application to Settlement Commission.

20. Explain the relevant dates as provided in section 26A(2) of the Customs Act, 1962 for purpose of refund of customs duty under specified circumstances, namely:

    (i) goods exported out of India

    (ii) relinquishment of title to goods

    (iii) goods destroyed or rendered commercially valueless.

SUGGESTED ANSWERS

1. A. <u>Computation of ITC credited to Electronic Credit Ledger</u>

As per rule 42 of the CGST Rules, 2017, the ITC in respect of inputs or input services being partly used for the purposes of business and partly for other purposes, or partly used for effecting taxable supplies and partly for effecting exempt supplies, shall be attributed to the purposes of business or for effecting taxable supplies.

ITC credited to the electronic credit ledger of registered person ['C_1'] is calculated as under-

$C_1 = T - (T_1+T_2+T_3)$

Where,

T	=	Total input tax involved on inputs and input services in a tax period.
T_1	=	Input tax attributable to inputs and input services intended to be used exclusively for non-business purposes
T_2	=	Input tax attributable to inputs and input services intended to be used exclusively for effecting exempt supplies
T_3	=	Input tax in respect of inputs and input services on which credit is blocked under section 17(5) of the CGST Act, 2017

Computation of total input tax involved [T]

Particulars	**(₹)**
GST paid on taxable items [₹ 55,00,000 x 18%]	9,90,000
Items exempted vide a notification [Since exempted, no GST is paid]	Nil
Items not leviable to tax [Since non-taxable, no GST is paid]	Nil
GST paid under reverse charge on freight paid to GTA for inward transportation of taxable items - [₹ 1,00,000 x 5%]	5,000
GST paid under reverse charge on freight paid to GTA for inward transportation of exempted items - [₹ 80,000 x 5%]	4,000
GST paid under reverse charge on freight paid to GTA for inward transportation of non-taxable items - [₹ 20,000 x 5%]	1,000
GST paid on monthly rent - [₹ 5,50,000 x 18%]	99,000
GST paid on packing charges [₹ 2,50,000 x 18%]	45,000
Salary paid to staff at the Store	Nil
[Services by an employee to the employer in the course of or in relation to his employment is not a supply in terms of para 1 of the Schedule III to CGST Act, 2017 and hence, no GST is payable	

thereon].	
GST paid on inputs used for personal purpose	5,000
GST paid on rent a cab services availed for business purpose	4,000
GST paid on items given as free samples	4,000
Total input tax involved in a tax period (October, 20XX) [T]	**11,57,000**

Computation of T_1, T_2, T_3

Particulars	**(₹)**
GST paid on monthly rent attributable to personal purposes [1/3 of ₹ 99,000]	33,000
GST paid on inputs used for personal purpose	5,000
Input tax exclusively attributable to non-business purposes [T_1]	**38,000**
GST paid under reverse charge on freight paid to GTA for inward transportation of exempted items [As per section 2(47) of the CGST Act, 2017, exempt supply means, *inter alia,* supply which may be wholly exempt from tax by way of a notification issued under section 11. Hence, input service of inward transportation of exempt items is exclusively used for effecting exempt supplies.]	4,000
GST paid under reverse charge on freight paid to GTA for inward transportation of non-taxable items [Exempt supply includes non-taxable supply in terms of section 2(47) of the CGST Act, 2017. Hence, input service of inward transportation of non-taxable items is exclusively used for effecting exempt supplies.]	1,000
Input tax exclusively attributable to exempt supplies [T_2]	**5,000**
GST paid on rent a cab services availed for business purpose [ITC on rent a cab service is blocked under section 17(5)(b)(iii) of the CGST Act, 2017 as the same is not used by All-in-One Store for providing the rent a cab service or as part of a taxable composite or mixed supply. It has been assumed that the Government has not notified such service under section 17(5)(b)(iii)(A) of the CGST Act, 2017].	4,000
GST paid on items given as free samples [ITC on goods *inter alia,* disposed of by way of free samples is blocked under section 17(5)(h) of the CGST Act, 2017].	4,000
Input tax for which credit is blocked under section 17(5) of the CGST Act, 2017 [T3] **	**8,000**

**Since GST paid on inputs used for personal purposes has been considered while computing T_1, the same has not been considered again in computing T_3.

ITC credited to the electronic credit ledger

$C_1 = T - (T_1+T_2+T_3)$

= ₹ 11,57,000 – (₹ 38,000 + ₹ 5,000 + ₹ 8,000)

= ₹ 11,06,000

B. Computation of Common Credit

$C_2 = C_1 - T_4$

where C_2 = Common Credit

T_4 = Input tax credit attributable to inputs and input services intended to be used exclusively for effecting taxable supplies

Computation of T_4,

Particulars	**(₹)**
GST paid on taxable items	9,90,000
GST paid under reverse charge on freight paid to GTA for inward transportation of taxable items	5,000
Input tax exclusively attributable to taxable supplies [T_4]	**9,95,000**

Common Credit $C_2 = C_1 - T_4$

= ₹ 11,06,000 – ₹ 9,95,000

= ₹ 1,11,000

C. Computation of ITC attributable towards exempt supplies out of common credit

ITC attributable towards exempt supplies is denoted as 'D_1' and calculated as -

$D_1 = (E \div F) \times C_2$

where,

'E' is the aggregate value of exempt supplies during the tax period, and

'F' is the total turnover in the State of the registered person during the tax period

Aggregate value of exempt supplies during October, 20XX

= ₹ 15,00,000 (₹ 12,00,000 + ₹ 3,00,000)

Total turnover in the State during the tax period

= ₹ 65,00,000 (₹ 42,00,000 + ₹ 12,00,000 + ₹ 3,00,000 + ₹ 8,00,000)

Note: Transfer of items to Store located in Goa is inter-State supply in terms of section 7 of the IGST Act, 2017 and hence includible in the total turnover. Such supply is to be valued as per rule 28 of the CGST Rules, 2017. However, the value declared in the invoice cannot be adopted as the value since the recipient Store at Goa is not entitled for full credit. Therefore, open market value of such goods, which is the value of such goods sold in Mumbai Store, is taken as the value of items transferred to Goa Store.

D_1 = (15,00,000 ÷ 65,00,000) x 1,11,000

= **₹ 25,615 (rounded off)**

D. Computation of Eligible ITC out of common credit

Eligible ITC attributed for effecting taxable supplies is denoted as 'C_3', where, -

$C_3 = C_2 - D_1$

= ₹ 1,11,000 - ₹ 25,615

= ₹ 85,385

E. Computation of Net GST liability for the month of October, 20XX

Particulars	GST (₹)
GST liability under forward charge	
Taxable items sold in the store [₹ 42,00,000 x 18%]	7,56,000
Taxable items transferred to Goa Store [₹ 8,00,000 x 18%]	1,44,000
Ineligible ITC [ITC out of common credit, attributable to exempt supplies]	25,615
Total output tax liability under forward charge	9,25,615
Less: ITC credited to the electronic ledger	11,06,000
ITC carried forward to the next month	(1,80,385)
Net GST payable [A]	Nil
GST liability under reverse charge	
Freight paid to GTA for inward transportation of taxable items - [₹ 1,00,000 x 5%]	5,000
Freight paid to GTA for inward transportation of exempted items - [₹ 80,000 x 5%]	4,000
Freight paid to GTA for inward transportation of non-taxable items - [₹ 20,000 x 5%]	1,000

Total output tax liability under reverse charge [B]	10,000
Net GST liability [A] + [B]	**10,000**
As per section 49(4) of the CGST Act, 2017 amount available in the electronic credit ledger may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82) of the CGST Act, 2017. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.	

Note: While computing net GST liability, ITC credited to the electronic ledger can alternatively be computed as follows:

Particulars	**(₹)**
GST paid on taxable items [₹ 55,00,000 x 18%]	9,90,000
Items exempted vide a notification [Since exempted, no GST is paid]	Nil
Items not leviable to tax [Since non-taxable, no GST is paid]	Nil
GST paid under reverse charge on freight paid to GTA for inward transportation of taxable items - [₹ 1,00,000 x 5%]	5,000
GST paid under reverse charge on freight paid to GTA for inward transportation of exempted items - [₹ 80,000 x 5%]	Nil
[As per section 2(47) of the CGST Act, 2017, exempt supply means, *inter alia,* supply which may be wholly exempt from tax by way of a notification issued under section 11. Hence, input service of inward transportation of exempt items is exclusively used for effecting exempt supplies. Input tax exclusively attributable to exempt supplies is to be excluded]	
GST paid under reverse charge on freight paid to GTA for inward transportation of non-taxable items - [₹ 20,000 x 5%]	Nil
[Exempt supply includes non-taxable supply in terms of section 2(47) of the CGST Act, 2017. Hence, input service of inward transportation of non-taxable items is exclusively used for effecting exempt supplies. Input tax exclusively attributable to exempt supplies is to be excluded]	
GST paid on monthly rent - for business purposes	66,000
[(₹ 5,50,000 x 18%) - 1/3 of [(₹ 5,50,000 x 18%)]	
GST paid on packing charges [₹ 2,50,000 x 18%]	45,000
Salary paid to staff at the Store	Nil
[Services by an employee to the employer in the course of or in relation to his employment is not a supply in terms of para 1 of the	

Schedule III to CGST Act, 2017 and hence, no GST is payable thereon]	
GST paid on inputs used for personal purpose [ITC on goods or services or both used for personal consumption is blocked under section 17(5)(g) of the CGST Act, 2017]	Nil
GST paid on rent a cab services availed for business purpose [ITC on rent a cab service is blocked under section 17(5)(b)(iii) of the CGST Act, 2017 as the same is not used by All-in-One Store for providing the rent a cab service or as part of a taxable composite or mixed supply. It has been assumed that the Government has not notified such service under section 17(5)(b)(iii)(A) of the CGST Act, 2017]	Nil
GST paid on items given as free samples [ITC on goods *inter alia,* disposed of by way of free samples is blocked under section 17(5)(h) of the CGST Act, 2017]	Nil
Total input tax involved in a tax period (October, 20XX) [T]	**11,06,000**

2. (i) Computation of GST payable on amount paid for transportation by XYZ Ltd. when it avails the services of different transporters

Particulars	**Freight [₹]**	**GST payable [₹]**
Transportation of biscuits in a local mini van belonging to an individual [Only the transportation of goods by road by a GTA is liable to GST. Therefore, transportation of goods by road otherwise than by a GTA is exempt from GST – *Notification No. 12/2017 CT (R) & 9/2017 IT (R) both dated 28.06.2017.*]	54,000	Nil
Transportation of biscuits by Indian Railways	3,17,000	15,850
Transportation of biscuits by GTA [GST is payable by XYZ Ltd. under reverse charge in terms of section 5(3) of the IGST Act, 2017 read with *Notification No. 10/2017 IT (R) dated 28.06.2017.*]	3,00,000	15,000
Transportation of biscuits by GTA @ 12% [When the GTA pays tax @ 12%, tax is payable by the GTA under forward charge and not by the recipient under reverse charge - *Notification No. 10/2017 IT (R) dated 28.06.2017.*]	73,000	8,760

Transportation of flour by GTA [Services provided by GTA by way of transport (in a goods carriage) of, *inter alia,* flour are exempt from GST vide *Notification No. 9/2017 IT (R) dated 28.06.2017.*]	55,000	Nil
Transportation of butter by GTA [Though services provided by GTA by way of transport (in a goods carriage) of, *inter alia,* milk is exempt from GST vide *Notification No. 9/2017 IT (R) dated 28.06.2017,* road transport of butter will not be exempted as butter is milk product and not milk. GST is payable by XYZ Ltd. under reverse charge in terms of section 5(3) of the IGST Act, 2017 read with *Notification No. 10/2017 IT (R) dated 28.06.2017.*]	35,000	1,750
Transportation of baking powder by GTA [Services provided by a GTA by way of transport in a goods carriage of goods, where consideration charged for the transportation of goods on a consignment transported in a single carriage does not exceed ₹ 1,500, are exempt from GST vide *Notification No. 9/2017 IT (R) dated 28.06.2017.*]	1,500	Nil
Transportation of biscuits by GTA to sister concern [GST is payable by XYZ Ltd. under reverse charge in terms of section 5(3) of the IGST Act, 2017 read with *Notification No. 10/2017 IT (R) dated 28.06.2017.*]	40,000	2,000
Total tax payable by XYZ Ltd. on availing services of different transporters		**43,360**

(ii) Computation of GST charged on transportation cost billed by XYZ Ltd. to its customers

Since XYZ Ltd. is supplying biscuits on FOR basis, the service of transportation of biscuits gets bundled with the supply of biscuits. Thus, the supply of biscuits and transportation service is a composite supply, chargeable to tax at the rate applicable to the principal supply (biscuits) i.e.,12% [Section 8(a) of the CGST Act, 2017 read with the definition of 'composite supply' under section 2(30) of the CGST Act, 2017 and 'principal supply' under section 2(90) of the CGST Act, 2017].

Particulars	Freight paid [₹] [A]	GST paid on freight [₹] [B]	Freight billed (with mark-up @ 2% on [A] + [B]) [₹]	GST charged @ 12% [₹]
Transportation of biscuits in a local mini van belonging to an individual	54,000	-	55,080	6,610
Transportation of biscuits by Indian Railways	3,17,000	15,850	3,39,507	40,741
Transportation of biscuits by GTA	3,00,000	15,000	3,21,300	38,556
Transportation of biscuits by GTA @ 12%	73,000	8,760	83,395	10,007
Total tax charged by XYZ Ltd. on transportation cost billed to the customers*				**95,914**

**Note: It has been assumed that there is no mark-up on transportation cost billed to sister concern (non-customer).*

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

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

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

= (RBI reference for US $ - Buying rate of US $) × Total number of units of US $ bought

= (₹ 68.6 - ₹ 68) × 1,000

= ₹ 600

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

= 1% of the gross amount of Indian Rupees received

= 1% of (₹ 67.50 × 2,000)

= ₹ 1,350

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

Third proviso to rule 32(2)(a) stipulates that a person supplying the services in relation to the purchase or sale of foreign currency, including money changing may exercise the option to ascertain the value in terms of rule 32(2)(b) for a financial year and such option shall not be withdrawn during the remaining part of that financial year.

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

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

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

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

= ₹ 680

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

= ₹ 1,175

4. Computation of GST liability of Jaskaran for the month of January, 20XX

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Supply of 20,000 packages to Sukhija Gift Shop, Punjab [Note-1]			1,09,526 [6,08,475 × 18%]
Renting of 10 generators to Morarji Banquet Halls, Chandigarh [Note-2]			45,000 [2,50,000 × 18%]
500 packages given as free gift to the customers [Note-3]	Nil	Nil	Nil
Catering services provided free of cost for elder brother's business inaugural function in Delhi [Note-3]	5,445 [60,500 × 9%]	5,445 [60,500 × 9%]	
Total GST liability (rounded off)	**5,445**	**5,445**	**1,54,526**

Notes:

1. As per section 2(74) of the CGST Act, 2017, mixed supply means two or more individual supplies of goods or services, or any combination thereof, made in conjunction with each other by a taxable person for a single price where such supply does not constitute a composite supply.

   Supply of a package containing chocolates, fruit juice bottles and a packet of toy balloons is a mixed supply as each of these items can be supplied separately and is not dependent on any other. Further, as per section 8(b) of the CGST Act, 2017, the mixed supply is treated as a supply of that particular supply which attracts the highest rate of tax. Thus, in the given case, supply of packages is treated as supply of chocolates [since it attracts the highest rate of tax]. Consequently, being an inter-State supply of goods, supply of packages to Sukhija Gift Shop of Punjab is subject to IGST @ 18% each.

   Further, value of supply includes interest or late fee or penalty charged for delayed payment of any consideration for any supply in terms of section 15(2)(d) of the CGST Act, 2017. Thus, penalty of ₹ 10,000 [considered as inclusive of GST] collected from Sukhija Gift Shop for the delayed payment will be included in the value of supply. The total value of supply is ₹ 6,08,475 [₹ 6,00,000 + (₹ 10,000 × 100/118)]

2. Services by way of transportation of goods by road except the services of a Goods Transportation Agency (GTA) are exempt vide *Notification No. 9/2017 IT (R) dated 28.06.2017*. Since Jaskaran is not a GTA, transportation services provided by him are exempt from GST. However, since the generators are invariably hired out along with their transportation till customer's premises, it is a case of composite supply

under section 2(30) of the CGST Act, 2017 wherein the principal supply is the renting of generator.

As per section 8(a) of the CGST Act, 2017, the composite supply is treated as the supply of the principal supply. Therefore, the service of transportation of generators will also be taxed at the rate applicable for renting of the generator (principal supply).

Consequently, being an inter-State supply of service, service of hiring out the generators to Morarji Banquet Halls of Chandigarh is subject to IGST @ 18% each.

3. As per section 7(1)(c) of the CGST Act, 2017, an activity made without consideration can be treated as supply only when it is specified in Schedule I of the CGST Act, 2017. Para 2. of Schedule I provides that supply of goods or services or both between related persons or between distinct persons as specified in section 25, when made in the course or furtherance of business, are to be treated as supply even if made without consideration.

   However, since the question does not provide that customers are related to Jaskaran, free gifts given to the customers cannot be considered as a supply under section 7. Consequently, no tax is leviable on the same.

   Further, the catering services provided by Jaskaran to his elder brother without consideration will be treated as supply as Jaskaran and his elder brother, being members of same family, are related persons in terms of explanation (a)(viii) to section 15 of the CGST Act, 2017 and said services have been provided in course/furtherance of business. Value of supply of services between related persons, other than through an agent is determined as per rule 28 of the CGST Rules, 2017. Accordingly, the value of supply is the open market value of such supply; if open market value is not available, the value of supply of goods or services of like kind and quality. However, if value cannot be determined under said methods, it must be worked out based on the cost of the supply plus 10% mark-up. Thus, in the given case, value of catering services provided to the elder brother of Jaskaran is ₹ 60,500 [₹ 55,000 × 110%]. Further, being an intra-State supply of services, catering services are subject to CGST and SGST @ 2.5% each.

5. As per *Notification No. 13/2017 CT(R) dated 28.06.2017*, GST is payable by the recipient on reverse charge basis on the receipt of services of transportation of goods by road from a goods transport agency (GTA) provided such GTA has not paid GST @ 12%. Since in the given case, Jaskaran has received services from a GTA who has paid GST @ 12%, reverse charge provisions will not be applicable.

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

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

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

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

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

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

(ii) Section 12(7)(a)(i) of IGST Act, 2017 stipulates that when service by way of organization of an event is provided to a registered person, place of supply is the location of recipient.

Since, in the given case, the product launch party at Bangalore is organized for Damani Industries (registered in Mumbai), place of supply is the location of Damani Industries i.e., Mumbai.

In case the product launch party is organised at Dubai, the answer will remain the same, i.e. the place of supply is the location of Damani Industries – Mumbai.

6.

Particulars	**₹**	**Ineligible credit (₹)**	**Amount to be credited to ECrL (₹)**
Machine 'A' [Since exclusively used for non-business purposes, ITC is not available under rule 43(1)(a) of CGST Rules, 2017]		19,200	
Machine 'B' [For ITC purposes, taxable supplies include zero-			38,400

rated supplies under rule 43(1)(b) of CGST Rules, 2017. Hence, full ITC is available]			
Machine 'C' [Commonly used for taxable and exempt supplies – Rule 43(1)(c) of the CGST Rules, 2017]	96,000		96,000
Machine 'D' [Owing to change in use from exclusively exempt to both taxable and exempt, common credit to be reduced by ITC @ 5% per quarter or part thereof in terms of proviso to rule 43(1)(c) of CGST Rules, 2017] = ₹ 1,92,000 – ₹ 76,800 (₹ 1,92,000 × 5% × 8 quarters)	1,15,200		1,15,200
Machine 'E' [Owing to change in use from exclusively taxable to both taxable and exempt, common credit to be reduced by ITC @ 5% per quarter or part thereof in terms of proviso to rule 43(1)(d) of CGST Rules, 2017] = ₹ 2,88,000 – ₹ 1,72,800 (₹ 2,88,000 × 5% × 12 quarters)	1,15,200		
Total common credit	3,26,400		
Common credit for the tax period (in the given case, a month) under rule 43(1)(e) of CGST Rules, 2017 = ` 3,26,400÷ 60	5,440		
Common credit attributable to exempt supplies in April, 20XX under rule 43(1)(g) of the CGST Rules, 2017 = (Turnover of exempt supplies/Total turnover) × Common credit = (12,00,000/24,00,000) × ₹ 5,440 [Such credit, along with the applicable interest, shall be added to the output tax liability of Oberoi Industries]		2,720	
Amount to be credited to the electronic credit ledger of Oberoi Industries for the month of April, 20XX			**2,49,600**

7. As per *Notification No. 12/2017 CT (R) dated 28.06.2017*, services by way of health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST.

Health care services have been defined to mean any service by way of diagnosis or treatment or care for illness, injury, deformity, abnormality or pregnancy in any recognised system of medicines in India and includes services by way of transportation of the patient to and from a clinical establishment, but does not include hair transplant or cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma.

Circular No. 32/06/2018 GST dated 12.02.2018 has clarified that in view of the above definition, it can be inferred that hospitals also provide healthcare services. The entire amount charged by them from the patients including the retention money and the fee/payments made to the doctors etc., is towards the healthcare services provided by the hospitals to the patients and is exempt from GST. In view of the same, GST is not applicable on the retention money kept by Shiva Medical Centre.

The circular also clarified that services provided by senior doctors/ consultants/ technicians hired by the hospitals, whether employees or not, are also healthcare services exempt from GST. Hence, services provided by the senior doctors and consultants hired by Shiva Medical Centre, being healthcare services, are also exempt from GST.

The circular further explained that food supplied by the hospital canteen to the in-patients as advised by the doctor/nutritionists is a part of composite supply of healthcare services and is not separately taxable. Thus, it is exempt from GST. However, other supplies of food by a hospital to patients (not admitted) or their attendants or visitors are taxable. In view of the same, GST is not applicable on the food supplied by Annapurna Bhawan to in-patients as advised by doctors/nutritionists while other supplies of food by it to patients (not admitted) or their attendants/visitors are taxable.

8. 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 the specified rates if, *inter alia,* he is not engaged in the supply of services other than restaurant services.

However, the restriction on service provider not to be engaged in any service other than restaurant service for being eligible for composition levy has been relaxed vide *Order No. 01/2017 CT dated 13.10.2017.* The said order clarifies that:

(i) if a person supplies goods and/or services referred to in clause (b) of paragraph 6 of Schedule II of the said Act (restaurant service) and also supplies any exempt services including services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, the said person shall not be ineligible for the composition scheme under section 10 of the CGST Act, 2017 subject to the fulfilment of all other conditions specified therein.

(ii) in computing his aggregate turnover in order to determine his eligibility for composition scheme, value of supply of any exempt services including services by way of extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount, shall not be taken into account.

In the given case, the two other services provided by Shubhlaxmi Foods apart from the restaurant service, viz. the services of supply of farm labour and services by way of extending deposits where the consideration is represented by way of interest, are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017*.

Thus, in view of the aforementioned order, since other services supplied by Shubhlaxmi Foods apart from restaurant service are exempt services, Shubhlaxmi Foods is not ineligible for the composition scheme.

Further, in computing his aggregate turnover in order to determine the eligibility of Shubhlaxmi Foods for composition scheme, value of supply of exempt services - supply of farm labour and bank interest shall not be taken into account. Thus, the aggregate turnover of Shubhlaxmi Foods is ₹ 90 lakh (turnover from restaurant services).

From the aforesaid discussion, it can be inferred that Shubhlaxmi Foods is eligible for composition scheme.

However, if Shubhlaxmi Foods is engaged in milling of paddy into rice instead of supply of farm labour, it will not be eligible for composition levy since as per *Order No. 01/2017 CT,* a person supplying restaurant services is eligible for composition levy only when other services provided by it are exempt services and milling of paddy into rice on job work basis is not an exempt service as clarified by *Circular No. 19/19/2017 GST dated 20.11.2017*.

9. The provisions of section 76 of the CGST Act, 2017 make it mandatory on Subharti Enterprises to pay amount collected from other person representing tax under this Act, to the Government.

Section 76 of the CGST Act, 2017 stipulates that notwithstanding anything to the contrary contained in any order or direction of any Appellate Authority or Appellate Tribunal or Court or in any other provisions of the CGST Act or the rules made thereunder or any other law for the time being in force, every person who has collected from any other person any amount as representing the tax under this Act, and has not paid the said amount to the Government, shall forthwith pay the said amount to the Government, irrespective of whether the supplies in respect of which such amount was collected are taxable or not.

Where any amount is required to be paid to the Government as mentioned above, and which has not been so paid, the proper officer may serve on the person liable to pay such amount a notice requiring him to show cause as to why the said amount as specified in the notice, should not be paid by him to the Government and why a penalty equivalent to the amount specified in the notice should not be imposed on him under the provisions of this Act.

The proper officer shall, after considering the representation, if any, made by the person on whom show cause notice (SCN) is served, determine the amount due from such person and thereupon such person shall pay the amount so determined.

The person who has collected any amount as representing the tax, but not deposited the same with the Government shall in addition to paying the said amount determined by the proper officer shall also be liable to pay interest thereon. Interest is payable at the rate specified under section 50. Interest is payable from the date such amount was collected by him to the date such amount is paid by him to the Government.

The proper officer shall issue an order within 1 year [excluding the period of stay order] from the date of issue of the notice. The proper officer, in his order, shall set out the relevant facts and the basis of his decision.

10. (1) (a) In case of goods liable for confiscation, the maximum amount of fine leviable in lieu of confiscation in terms of first proviso to section 130(2) of the CGST Act, 2017 is the market value of the goods confiscated, less the tax chargeable thereon.

Therefore, in the given case, maximum fine leviable:

= ₹ 40,00,000 - ₹ 4,80,000 = ₹ 35,20,000

(b) In case where conveyance used for carriage of such goods is liable for confiscation, the maximum amount of fine leviable in lieu of confiscation in terms of third proviso to section 130(2) of the CGST Act, 2017 is equal to tax payable on the goods being transported thereon.

Therefore, in the given case, maximum fine leviable = ₹ 4,80,000

(2) No, Raghuraman's claim is not tenable in law. Section 126(1) of the CGST Act, 2017 provides that no officer shall impose any penalty under CGST Act, 2017, *inter alia,* for minor breaches of tax regulations or procedural requirements. Further, explanation to section 126(1) of the CGST Act, 2017 stipulates that a breach shall be considered a 'minor breach' if the amount of tax involved is less than ₹ 5,000.

In the given case, breach made by Raghuraman is not a 'minor breach' since the amount involved is not less than ₹ 5,000. So, penalty is imposable under the CGST Act, 2017.

11. Section 54(3)(ii) of the CGST Act, 2017 allows refund of unutilized input tax credit (ITC) at the ned of any tax period to a registered person where the credit has accumulated on account of inverted duty structure i.e. 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.

In the given case, the rates of tax on inputs used in Products A and B (18% each) are higher than rates of tax on output supplies of Products A and B (5% each). However, Product B is notified as a product, in respect of which no refund of unutilised ITC shall be allowed under section 54(3)(ii) of the CGST Act, 2017. Therefore, only Product A is eligible for refund under section 54(3)(ii).

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

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

where,-

A. **"Net ITC"** means input tax credit availed on inputs and input services during the relevant period;

B. **"Adjusted Total turnover"** means the turnover in a State or a Union territory, excluding the value of exempt supplies other than zero-rated supplies, during the relevant period.

In accordance with the aforesaid provisions, the maximum refund amount which Super Engineering Works is eligible to claim shall be computed as follows:

Tax payable on inverted rated supply of Product A = ₹ 5,00,000 × 5% = ₹ 25,000

Net ITC = ₹ 1,18,000 (₹ 54,000 + ₹ 54,000 + ₹ 10,000) [Net ITC availed during the relevant period needs to be considered irrespective of whether the ITC pertains to inputs eligible for refund of inverted rated supply of goods or not]

Adjusted Total Turnover = ₹ 9,50,000 (₹ 5,00,000 + ₹ 3,50,000 + ₹ 1,00,000)

Turnover of inverted rated supply of Product A = ₹ 5,00,000

Maximum refund amount for Super Engineering Works is as follows:

= [(₹ 5,00,000 × ₹ 1,18,000)/ ₹ 9,50,000] - ₹ 25,000

= ₹ 37,105 (rounded off)

12. (i) As per section 31(1) of the CGST Act, 2017, every registered person supplying taxable goods is required to issue a tax invoice. Section 31(3)(c) of the CGST Act, 2017 stipulates that every registered person supplying exempted goods is required to issue a bill of supply instead of tax invoice.

Further, as per section 31(3)(b) of the CGST Act, 2017 read with rule 46 of the CGST Rules, 2017, a registered person may not issue a tax invoice if:

(i) value of the goods supplied < ₹ 200,

(ii) the recipient is unregistered; and

(iii) the recipient does not require such invoice.

Instead such registered person shall issue a Consolidated Tax Invoice for such supplies at the close of each day in respect of all such supplies.

(ii) As per rule 46A of the CGST Rules, 2017, where a registered person is supplying taxable as well as exempted goods or services or both to an unregistered person, a single **"invoice-cum-bill of supply"** may be issued for all such supplies. Thus, there is no need to issue a tax invoice and a bill of supply separately to the school student in respect of supply of the taxable and exempted goods respectively.

(iii) As per section 33 of the CGST Act, 2017, where any supply is made for a consideration, every person who is liable to pay tax for such supply shall prominently indicate in all documents relating to assessment, tax invoice and other like documents, the amount of tax which shall form part of the price at which such supply is made. Hence, Jai has to show the tax amount separately in the tax invoices issued to customers.

13. Section 60(4) of the CGST Act, 2017 stipulates that where the tax liability as per the final assessment is higher than under provisional assessment i.e. tax becomes due consequent to order of final assessment, the registered person shall be liable to pay interest on tax payable on supply of goods but not paid on the due date, at the rate specified under section 50(1) [18% p.a.], from the first day after the due date of payment of tax in respect of the goods supplied under provisional assessment till the date of actual payment, whether such amount is paid before/after the issuance of order for final assessment.

In the given case, due date for payment of tax on goods cleared on 25.01.20XX under provisional assessment is 20.02.20XX.

In view of the provisions of section 60(4), in the given case, Kulbhushan & Sons is liable to pay following interest in respect of 1st consignment:

= ₹ 1,80,000 × 18% × 48/365

= ₹ 4,261 (rounded off)

Further, section 60(5) of the CGST Act, 2017 stipulates that where the tax liability as per the final assessment is less than in provisional assessment i.e. tax becomes refundable consequent to the order of final assessment, the registered person shall be paid interest at the rate specified under section 56 [6% p.a.] from the date immediately after the expiry of 60 days from the date of receipt of application under section 54(1) till the date of refund of such tax.

However, since in the given case, refund has been made (05.06.20XX) within 60 days from the date of receipt of application of refund (09.04.20XX), interest is not payable to Kulbhushan & Sons on tax refunded in respect of 2^{nd} consignment.

14. Section 2(99) of the CGST Act, 2017 defines "revisional Authority" as an authority appointed or authorised under the CGST Act for revision of decision or orders referred to in section 108 of the CGST Act, 2017.

Section 108 of the CGST Act, 2017 authorizes such "revisional authority" to call for and examine any order passed by his subordinates and in case he considers the order of the lower authority to be erroneous in so far as it is prejudicial to revenue and is illegal or improper or has not taken into account certain material facts, whether available at the time of issuance of the said order or not or in consequence of an observation by the Comptroller and Auditor General of India, he may, if necessary, can revise the order after giving opportunity of being heard to the noticee. The "revisional authority" can also stay the operation of any order passed by his subordinates pending such revision.

The "revisional authority" shall not revise any order if-

(a) the order has been subject to an appeal under section 107 or under section 112 or under section 117 or under section 118; or

(b) the period specified under section 107(2) has not yet expired or more than three years have expired after the passing of the decision or order sought to be revised.

(c) the order has already been taken up for revision under this section at any earlier stage.

(d) the order is a revisional order.

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

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

16. No, the Commissioner's approach is not correct in law.

As per section 14 of the Customs Act, 1962, the transaction value of the goods is the price actually paid or payable for the goods at the time and place of importation. Further, the Supreme Court in the case *Garden Silk Mills Ltd. v. UOI 1993 (113) E.L.T. 358 (SC)* has held that importation gets complete only when the goods become part of mass of goods within the country.

Therefore, since in the instant case, the price of the goods was reduced while they were in transit, it could not be contended that the price was revised after importation took place. Hence, the goods should be valued as per the reduced price, which was the price actually paid at the time of importation.

17. **Computation of assessable value of the imported machine**

Particulars	US $
Cost of the machine at the factory	17,000.00
Transport charges up to port	850.00
Handling charges at the port	85.00
FOB	17,935.00
Freight charges up to India	1,700.00
Insurance charges @ 1.125% of FOB [Note 1]	201.77
CIF	19,836.77
CIF in Indian rupees @ ₹ 60/ per $	₹ 11,90,206.13
Assessable Value (rounded off)	**₹11,90,206**

Notes:

(1) Insurance charges have been included @ 1.125% of FOB value of the machine [Third proviso to rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007].

(2) Buying commission is not included in the assessable value [Rule 10(1)(a)(i) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007].

18. The facts of the case are similar to the case of *Bussa Overseas & Properties P. Ltd. v C.L. Mahar, Asstt. C.C., Bombay 2004 (163) E.L.T. 304 (Bom.)* [maintained by the Supreme Court] wherein the Bombay High Court observed that once goods are cleared for home consumption, they cease to be imported goods as defined in section 2(25) of the Customs Act, 1962. The goods lose its character of imported goods on being granted clearance for home consumption and thereafter the power to confiscate can be exercised only in cases where the order of clearance is revised and cancelled.

Therefore, in the given case the **confiscation of the goods by the Department is illegal**.

The Bombay High Court further observed that section 112(a) of the Customs Act, 1962 provides that any person who in relation to any goods, does or omits to do any act which act or omission would render such goods liable to confiscation under section 111, or abets the doing or omission of such act, is liable to a penalty.

The High Court held that the power to impose penalty could be exercised not only when the goods are available for confiscation but when such goods are liable to confiscation. The expression 'liable to confiscation' clearly indicates that the power to impose penalty can be exercised even if the goods are not available for confiscation. Mere fact that the importers secured such clearance and disposed of the goods and thereafter goods are not available for confiscation cannot divest Customs Authorities of the powers to levy penalty under section 112 of the Act.

Thus, **penalty levied by the Department in the given case is tenable in law**.

19. According to section 127B of the Customs Act 1962, the following conditions are to be fulfilled for filing an application for settlement of cases:

(i) the applicant has filed a bill of entry, or a shipping bill, or a bill of export, or made a baggage declaration, or a label or declaration accompanying the goods imported or exported through post or courier, as the case may be, and in relation to such document or documents, a show cause notice has been issued to him by the proper officer.

(ii) the additional duty accepted is more than ₹ 3 lakhs.

(iii) the applicant has paid the additional amount of customs duty accepted by him alongwith interest due under section 28AA.

(iv) the case is not pending with CESTAT or any Court.

(v) the application does not relate to goods to which section 123 applies or to goods in relation to which any offence under the Narcotic Drugs and Psychotropic Substances Act, 1985 has been committed.

(vi) the application is not for the interpretation of the classification of the goods under the Customs Tariff Act, 1975

Further, application before Settlement Commission can be made only when adjudication is pending.

20. The relevant dates provided under Explanation to section 26A(2) of the Customs Act, 1962 for purpose of refund of duty under specified circumstances are as follows:-

	Case	**Relevant date**
(i)	Goods exported out of India	Date on which the proper officer makes an order permitting clearance and loading of goods for exportation
(ii)	Relinquishment of title to the goods	Date of such relinquishment
(iii)	Goods being destroyed or rendered commercially valueless	Date of such destruction or rendering of goods commercially valueless

Note: GST law has been subject to frequent changes since its inception. Although many clarifications have been issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.