

FINAL COURSE
GROUP – II

REVISION TEST PAPERS

MAY, 2026



BOARD OF STUDIES (ACADEMIC)
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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REVISION TEST PAPER, MAY 2026 – OBJECTIVE & APPROACH

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

I. Objective of Revision Test Paper

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

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To update them on the latest developments relevant for the forthcoming examination in select subjects;
- To enhance the confidence level of the students adequately.

Students must bear in mind that the RTP contains a variety of questions based on different topics of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials and Statutory Update/Judicial Update, wherever applicable.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Live Virtual Classes by renowned subject experts conducted free of charge in virtual mode for the students of Foundation, Intermediate and Final levels provide the students much required support in preparing for their exams conveniently at home as these classes can be accessed live or viewed later as recorded lectures through hand-held devices such as smart phones, laptops, I-pads, tablets, etc. anytime anywhere. Further,

students are advised to attempt the Multiple-Choice Questions (MCQs) at MCQ Paper Practice Portal which is a holistic platform for self-assessment within the stipulated timeframe.

Students are welcome to send their suggestions for fine tuning the RTP to the Joint Director, Board of Studies (Academic), The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201309 (Uttar Pradesh). RTP is also available on BOS Knowledge Portal at <https://boslive.icai.org> for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects (along with the Statutory Update in case of Paper 5 and Judicial Update in Paper 4) available at the BoS Knowledge Portal. Get a good grasp of the concepts/provisions/ amendments/ cases discussed therein.

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

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question.

- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time. Keep sometime for checking the answers as well.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.
- In case of case scenario based MCQs, read the facts given in the case attentively. Also, read each MCQ based thereon and all the options carefully, before choosing the correct answer.

III. Subject-wise Applicability

PAPER - 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

The provisions of direct tax laws, as amended by the Finance Act, 2025 and significant notifications, circulars issued and other legislative amendments made upto 31.10.2025, are relevant for May, 2026 examination. The relevant assessment year for May, 2026 examination is A.Y.2026-27.

The September 2025 edition of the Study Material, comprising of four modules (Modules 1 to 4), is applicable for May, 2026 Examination.

Since there is no significant notifications/circulars issued between 1.8.2025 and 31.10.2025, Statutory Update is not issued for May, 2026 Examination.

The above referred study material has to be read along with Judicial Update for May, 2026 examination available at <https://resource.cdn.icai.org/90669bos-aps4077-ju-may2026.pdf> which is also relevant and important for May, 2026 examination.

You have to read the September 2025 edition of the Study Material along with the Judicial Update for May, 2026 examination thoroughly to attain conceptual clarity and understand the impact of amendments and interpretation of court rulings. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments made by the Finance Act, 2025 and latest notifications and circulars have been given in *italics/bold italics*. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Work out the exercise questions at the end of each chapter and then, compare your answers with the answers given to test your level of understanding. Thereafter, solve the MCQs and case scenarios based MCQs uploaded in MCQ Paper Practice Dashboard to assess your level of understanding and hone your analytical and problem-solving skills.

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

PAPER – 5: INDIRECT TAX LAWS

The subject of Indirect Tax Laws at the Final level is divided into two parts, namely, Part I: Goods and Services Tax for 80 marks and Part II: Customs & Foreign Trade Policy (FTP) for 20 marks. For this paper, the following are applicable for May 2026 examination:

The following are applicable for May 2026 examination:

- (i) The provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance Act, 2025 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2025.
- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance Act, 2025 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2025.

Note - The amendments made by the Annual Union Finance Acts in the Indirect Tax Laws are made effective from a date notified subsequently. Thus, only those amendments made by the relevant Finance Acts which have become effective till 31.10.2025 are applicable for May 2026 examination.

Further, it may be noted that amendments made by the Finance Act, 2023 in section 65 of the Customs Act, 1962 and insertion of new section 65A in the Customs Act, 1962 have not become effective till 31.10.2025 and thus, are not applicable for May 2026 examination. Also, the amendments made by the Finance (No. 2) Act, 2019 in sections 2(4), 95, 102, 103, 104, 105 and 106 of the CGST Act, 2017 and the insertion of new sections 101A, 101B & 101C in the CGST Act, 2017, have not become effective till 31.10.2025 and thus, are not applicable for May 2026 examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of "Study Guidelines for May 2026 Examination". The same is given as part of "Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May 2026 - Final Examination" appended at the end of this Revision Test Paper.

Students may note that September 2025 Edition of the Study Material is applicable for Final Paper 5: Indirect Tax Laws. The Study Material has been divided into four modules for ease of handling by students. The

first three modules are on GST and the fourth module is on Customs and FTP.

The subject matter of Part I: Goods and Services Tax of this Study Material is based on the provisions of the Central Goods and Services Tax Act, 2017 and Integrated Goods and Services Act, 2017 as amended by the Finance Act, 2024 and Finance (No. 2) Act, 2024 including the significant notifications and circulars issued and other legislative amendments made, which have become effective upto 30.04.2025.

The content discussed in Part II: Customs & FTP is based on the Customs laws as amended by the Finance Act, 2025 including the significant notifications and circulars issued and other legislative amendments made, which have become effective upto 30.04.2025.

The significant notifications and circulars issued from 01.05.2025 to 31.10.2025 in Part I: Goods and Services Tax and Part II: Customs & FTP are compiled and web hosted as Statutory Update for May 2026 examination.

You have to read the Study Material alongwith Statutory update thoroughly to attain conceptual clarity. Read the case laws given at the end of each chapter under "Significant Select Cases" in module on customs laws.

Solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. Detailed answers have been provided for the descriptive questions given in this RTP to facilitate in depth understanding and appreciation of the provisions of the indirect tax laws in problem solving. This will help in enhancing your conceptual clarity and honing your application and analytical skills so that you are able to approach the examination with confidence and a positive attitude.

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

Integral to the Integrated Business Solutions (IBS) curriculum is the 'Case Study', a vital aspect of the CA Final Level. Here, students must apply their knowledge gathered from the five core subjects at final level and Self-paced Modules Set A & B. In this paper, since students are expected to integrate the knowledge acquired in different subjects in solving case studies, there is no separate study material. However, multi-disciplinary case studies are available in Case Study Digest, which will help them understand the manner of answering case study-based questions involving different subjects. The Case Study Digest features a diverse collection of case studies, highlighting contemporary business models adopted by leading companies across a range of sectors. These sectors include the beverage industry (specifically the tea segment), e-commerce, transportation, telecommunications, the aviation sector, food and hospitality, the construction industry, healthcare, and the fast fashion industry. Each case study provides an in-depth analysis of the innovative strategies and practices driving success in these fields.

In case students face difficulty in any subject, they can refer "Saransh" for different subjects, wherein the concepts and provisions are explained through diagrams, charts and tables to facilitate quick assimilation of the significant concepts and provisions dealt with in each subject.

The manner of assessment of this paper would be 40% by way of MCQs and 60% in the form of Descriptive Questions in each case study of 25 marks. The examination is open book, thereby eliminating the need for rote learning.

This revision test paper includes two case studies. Here's the data tabulated case study-wise:

Case Study	Industry	Subjects	Topics
1	Power Mines Limited (PML) (Mining Industry)	Financial Reporting, Direct Tax, Auditing, Corporate and Economic Laws, Strategic Cost &	This case study on the Mining Industry comprehensively examines the application of Mendelow's Matrix in

		Performance Management, Indirect Tax	stakeholder analysis, along with key regulatory and accounting frameworks. It analyses the implications of Indirect Tax Circular No. 177/09/2022, the accounting treatment under Indian Accounting Standard 111 and Indian Accounting Standard 16, the auditor's responsibilities under SA 250, and the provisions relating to Section 279 of the Companies Act.
2	Crystal Containers Limited (Consumer Glassware Industry)	Clear Financial Reporting, Indirect Tax, Auditing, Advanced Financial Management, Strategic Cost & Performance Management, Direct Tax	This case study examines the financial, strategic, and regulatory dimensions of the Consumer Glassware Industry, with particular emphasis on cost management, valuation, and statutory compliance. It analyses the application of Target Costing, inventory valuation under Indian Accounting Standard 2, business valuation using the Discounted Cash Flow (DCF) Method, competitive positioning through Generic Strategies (Porter's Framework), and tax implications under Section 43B of the Income-tax Act etc.

Solving multidisciplinary 'Case Study' will enhance the analytical skills and decision-making skills of students. This holistic and integrated approach ensures that students emerge well-equipped to tackle the challenges presented in the constantly changing business environment.



PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

The provisions of direct tax laws, as amended by the Finance Act, 2025 and the significant notifications and circulars issued upto 31.10.2025, are relevant for May 2026 examination. The relevant assessment year is A.Y.2026-27. The September, 2025 edition of the Study Material contains the provisions of direct tax laws as amended by the Finance Act, 2025 and notifications and circulars issued upto 31.7.2025. The said study material has to be read along with the Judicial Update for May, 2026 Examination webhosted at <https://resource.cdn.icai.org/90669bos-aps4077-ju-may2026.pdf>. Since there are no significant notifications/circulars issued between 1.08.2025 and 31.10.2025, Statutory Update is not issued for May 2026 Examination.



QUESTIONS

Case Scenario I

Mr. Nylon, a citizen of Country X, came to India on 14.07.2025. On 13.10.2025, he left India for China on a business trip. He came back on 28.02.2026 and stayed in India till 14.4.2026. He visits India every year for 85 days for providing technical services to Indian customers.

During his visits to India, Mr. Nylon carried on his professional activities from the same premises where he stayed as a paying guest. The premises were used as his base for rendering technical services, meeting client, and performing professional work relating to M/s PQR LLP only. He paid rent of ₹ 85,000 per month or part thereof to Mr. Amit (a salaried employee) for use of premises, and accordingly, the said premises constituted his fixed place of profession in India.

He earned the following income in India during the Previous Year 2025–26:

S. No.	Particulars of Income	Amount (₹)
(i)	Fees for technical services from XYZ Ltd. (under an agreement approved by Government of India)	25,00,000
(ii)	Fees for technical services from M/s PQR LLP (agreement not approved by the Government of India)	14,00,000
(iii)	Expenditure incurred for providing services at (i) above	4,00,000
(iv)	Expenditure incurred for providing services at (ii) above	4,00,000
(v)	Rental Income a let-out property located in Country X	12,50,000
(vi)	Interest on loan borrowed for let-out house property located in Country X	(2,80,000)
(vii)	Dividend income from Indian companies	8,00,000
(viii)	Income from mutual funds specified under section 10(23D) (units purchased in foreign currency)	75,000
(xi)	Interest on debentures of Indian company subscribed in foreign currency	1,50,000

Mr. Nylon is paying tax as per section 115BAC(1A).

His sister Mrs. Nile married to an Indian Citizen and reside in India. She is proprietor of M/s Dynasty Beauty Lounge. The assessment for the A.Y. 2024-25 of M/s Dynasty Beauty Lounge, was made under section 143(3) on 01.12.2025. The Assessing officer added ₹ 16,00,000 on account of unexplained expenditure. However, she contended before the CIT(A) that this is professional fees paid to a consultant but could not substantiate with any invoice. The CIT(A) did not accept the contention of the assessee and pass the order against her on 15.03.2026.

Note - DTAA between India and Country X need not be considered while answering the MCQs unless specified.

From the information given above, choose the most appropriate answer of MCQs 1 to 6:

1. What would be the residential status of Mr. Nylon in India for the P.Y. 2025-26?

- (a) Non-resident
 - (b) Resident and Ordinarily Resident
 - (c) Resident but Not Ordinarily Resident
 - (d) Deemed Resident but not Ordinarily Resident
2. What would be the total income of Mr. Nylon for the Assessment Year 2026-27?
- (a) 51,20,000
 - (b) 54,95,000
 - (c) 45,25,000
 - (d) 41,25,000
3. What would be tax liability of Mr. Nylon for the Assessment Year 2026-27?
- (a) ₹ 10,28,460
 - (b) ₹ 7,74,800
 - (c) ₹ 9,42,940
 - (d) ₹ 6,91,600
4. Determine the amount of tax to be deducted at source on Fees for technical services, considering that DTAA between India and Country X provides that fees for technical services is taxable in India @25% irrespective of the agreement being approved by the Central Government?
- (a) TDS of ₹ 5,20,000 by XYZ Ltd. and ₹ 3,50,000 by M/s PQR LLP
 - (b) TDS of ₹ 5,20,000 by XYZ Ltd. and ₹ 4,36,800 by M/s PQR LLP
 - (c) TDS of ₹ 5,20,000 by XYZ Ltd. and ₹ 3,64,000 by M/s PQR LLP
 - (d) TDS of ₹ 6,25,000 by XYZ Ltd. and ₹ 3,50,000 by M/s PQR LLP
5. What is the remedy available to the Mrs. Nile in respect of appeal which was decided against her on 15.03.2026?

- (a) She can file an application for revision to the Commissioner under section 264.
 - (b) She can file an application for rectification under section 154, if it is a mistake apparent from the record.
 - (c) She can file appeal to Appellate Tribunal under section 253
 - (d) She would be liable to pay penalty but cannot file the appeal against CIT(A) order because it is related to unexplained expenditure.
6. Whether Mr. Nylon is required to deduct tax at source on rent paid or payable to Mr. Amit? If yes, at what rate tax is to be deducted at source?
- (a) No, tax is not required to be deducted at source as Mr. Nylon is a non-resident
 - (b) Yes, tax is required to be deducted at source @2%
 - (c) Yes, tax is required to be deducted at source @ 2.08%
 - (d) Yes, tax is required to be deducted at source @ 10%

Case Scenario II

Mr. Kunal Verma, a resident individual and partner in a consulting firm, filed his return of income for the assessment year 2026-27 under section 139(1). During the previous year 2025-26, he sold listed equity shares through a recognised stock exchange on which Securities Transaction Tax was paid at the time of acquisition and transfer, resulting in long-term capital gains of ₹ 68,00,000. On 16.12.2025, he also sold a residential house property for ₹ 115 lakhs which he had acquired for ₹ 25 lakhs on 31.5.2011. Out of the sales proceed, he invested ₹ 30,00,000 in a new residential house. Share of profit and remuneration from the consulting firm was ₹ 2,50,000 and ₹ 35,00,000, respectively. Such remuneration is fully allowable as deductible u/s 40(b) in the hands of consulting firm.

Further, during the year, Mr. Verma purchased a foreign tour package for ₹ 28,00,000, on which tax was collected at source under section 206C(1G) and correctly reflected in his Form 26AS; however, he failed to claim credit for such TCS in the return of income and also did not properly disclose the transaction in the relevant schedule. The return was processed under section 143(1), wherein excess tax liability was computed due to incorrect treatment of long-term capital

gains, credit for TCS was not allowed, and interest under sections 234A, 234B and 234C was levied.

By the time Mr. Verma noticed these errors, the time limit for filing revised return under section 139(5) as well as for seeking rectification under section 154 had expired. Consequently, he filed a revision petition under section 264 before the Principal Commissioner of Income-tax, enclosing contract notes, investment proofs and Form 26AS, and contended that the mistakes were bona fide and had resulted in undue hardship. The Principal Commissioner, however, rejected the revision petition on the ground that once the assessee had consciously offered the income to tax, the return could not be altered by invoking the provisions of section 264.

Mr. Kunal Verma is paying tax as per section 115BAC(1A).

Cost Inflation Index for F.Y. 2011-12: 184; F.Y. 2025-26: 376

From the information given above, choose the most appropriate answer of MCQs 7 to 11:

7. Compute the amount of capital gains includible in the total income of Mr. Kunal Verma and tax thereon (ignore cess and surcharge, if any) for the A.Y. 2026-27:
 - (a) ₹ 1,00,66,304 and ₹ 15,84,375
 - (b) ₹ 1,28,00,000 and ₹ 15,12,636
 - (c) ₹ 1,26,75,000 and ₹ 15,12,636
 - (d) ₹ 1,01,91,304 and ₹ 15,28,261
8. Compute the total income and tax liability of Mr. Kunal Verma for the A.Y. 2026-27. Ignore TCS/TDS if any collected or deducted while computing tax liability:
 - (a) ₹ 1,63,00,000 and ₹ 25,62,590
 - (b) ₹ 1,61,75,000 and ₹ 28,62,640
 - (c) ₹ 1,39,41,304 and ₹ 26,52,290
 - (d) ₹ 1,35,66,304 and ₹ 26,48,390

9. What amount of tax deducted at source and tax collected at source can be claimed as tax credit by Mr. Kunal Verma while paying self-assessment tax for the A.Y. 2026-27?
- (a) ₹ 8,75,000
 - (b) ₹ 7,60,000
 - (c) ₹ 5,25,000
 - (d) ₹ 10,25,000
10. Which of the following statements are correct while processing return under section 143(1)?
- (i) Re-computation of long-term capital gains based on figures available in the return and schedules can be made if the claim is incorrect and apparent from the information furnished.
 - (ii) Credit of TCS reflected in Form 26AS must be allowed even if the assessee has neither claimed the credit nor disclosed the transaction properly in the return.
 - (iii) Levy of interest under sections 234A, 234B and 234C
- (a) (i), (ii) & (iii)
 - (b) (i) only
 - (c) (ii) & (iii) only
 - (d) (i) & (iii) only
11. Which of the following is the correct legal position with respect to reject of revision petition under section 264 before the Principal Commissioner of Income-tax?
- (a) The PCIT was correct, as section 264 cannot be invoked to correct mistakes committed by the assessee
 - (b) The assessee should have filed a rectification application under section 154 and revision petition cannot be filed under section 264
 - (c) The PCIT has the power under section 264 to grant relief even where the mistake is committed by the assessee

- (d) Once the time limit for filing a revised return expires, no relief can be granted under the Act
12. A search was conducted on Mr. A in March 2026, and proceedings under section 158BC were initiated. Consequently, the regular assessment proceedings for A.Y. 2024-25 were considered abated. The Assessing Officer completed the block assessment under section 158BC in December 2026. Thereafter, Mr. A filed an appeal, and in May 2027, the appellate authority annulled the block assessment. The annulment order was received by the Principal Commissioner on 30th June 2027. Which of the following statements is correct?
- (a) The annulment has no impact, since the block assessment was already completed.
 - (b) The earlier abated assessment for A.Y. 2024-25 will automatically revive with effect from 30th June 2027.
 - (c) The annulment of the block assessment permanently closes the right of the Revenue to reassess the income of the assessment years falling within the block period.
 - (d) The Assessing Officer must seek directions from the Tribunal before taking up the revived assessment.
13. M/s Strong Private Limited is a domestic company engaged in the business of manufacturing steel. The statement of Profit and Loss for the previous year ended 31st March, 2026 shows a net profit of ₹ 85.20 lakhs after debiting and crediting the following items:
- (a) Depreciation charged on property, plant and equipment - ₹ 10,15,000.
 - (b) Employer's contribution to EPF of ₹ 8 lakhs together with similar amount of employees' contribution for the month of March, 2026 was remitted on 20th July, 2026.
 - (c) Contribution of ₹ 1.50 lakhs to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority

- (d) Advertisement expenses include an amount of ₹ 55,000 paid by way of an account payee cheque for advertisement published in the souvenir issued by a political party on which appropriate tax was deducted.
- (e) The company has made provision for Gratuity based on actuarial valuation of ₹ 5 lakhs. Actual gratuity paid amounting to ₹ 1,20,000 during financial year 2025-26 was debited to provision of Gratuity Account.
- (f) Opening stock is overvalued by ₹ 10,35,000 and closing stock is also overvalued ₹ 8,85,000.
- (g) Dividend from a foreign company in which the company holds 30% equity share capital - ₹ 3 lakhs
- (h) Profit from the transfer of units of equity oriented funds - ₹ 7 lakhs. These units were acquired by company 2 years ago for ₹ 4 lakhs. STT has been paid on both purchase and transfer of such units.
- (i) The company lost cash of ₹ 5,00,000 due to theft when it was withdrawn from the bank and taken to administrative office. It is not insured and hence, fully charged as revenue expenditure.

Additional Information:

- (i) Depreciation on tangible fixed assets as per Income-tax Rules, 1962 - ₹ 8,50,000. This amount does not include depreciation on any assets which were acquired during the year.
- (ii) The company acquired a power generating plant on 01.07.2025 for ₹ 25 lakhs. The payment for the plant was from:

Date	Particulars	₹
1.06.2025	Advance payment for the plant (Paid in cash)	3,00,000
15.06.2025	Grant received from the State Government	7,00,000
01.07.2025	Remaining payment for the plant (through banking channel)	15,00,000

- (iii) The company paid ₹ 85,000 in cash to M/s Naveen Traders, a medium enterprise, on April 15, 2025 for purchase of raw material on March 31, 2025. There was no written agreement between the parties. The expenditure was allowed as deduction on due basis.
- (iv) A regular supplier of raw materials agreed for settlement of ₹ 14 lakhs instead of ₹ 18 lakhs for poor quality of material supplied during the last year.
- (v) The company distributed dividend of ₹ 1.50 lakh on 15th October, 2026 to its shareholders.
- (vi) The company has not entered into any international transaction during the P.Y. 2025-26. Turnover of the company for previous year 2023-24 was ₹ 350 crores.

Compute the total income and tax liability of M/s Strong Private Limited for assessment year 2026-27 giving brief reasons/explanations for the treatment of each item under regular provisions of the Income-tax Act, 1961. Ignore MAT.

Will it be beneficial for the company to opt for the concessional rates in assessment year 2026-27 instead of paying tax under regular provisions of the Income-tax Act, 1961.

14. Examine the following independent case scenarios of charitable trust/institutions based on the provisions of the Income-tax Act, 1961:

- (i) Sahitya charitable trust, having its main object as medical relief, earned the following income during the P.Y.2025-26:

Particulars		Amount in ₹
(i)	Income from tax free bonds issued by Indian Railway Finance Corporation Ltd. (IRFCL)	1,10,000
(ii)	Agricultural income	4,25,000

The trust claims exemption under section 10(1) and 10(15) in respect of its agricultural income, and interest income, respectively, without complying with the conditions laid down under section 11.

- (ii) "Vidya Jyoti Educational Trust" registered under section 12AB owns a building used for educational activities. During the year, one floor was given on rent to a private coaching institute owned by the wife of the founder of the trust. The trust charged rent of ₹ 20,000 per month, whereas similar properties in the same locality fetch rent of ₹ 70,000 per month. The trust justified the lower rent on the ground that the coaching institute supports educational objectives.
- (iii) "Aarogya Welfare Charitable Trust" is registered under section 12AB and is engaged in providing free medical facilities. During the Previous Year 2025-26, Mr. Karan contributed ₹ 75,000. Further, he had contributed ₹ 9,50,000 up to 31.3.2025.

During the same year, the trust sold old hospital furniture to Mr. Karan for ₹ 1,20,000. The fair market value of the furniture was ₹ 2,80,000. The trust claims that since Mr. Karan's donation during the current year does not exceed ₹ 1 lakh, he should not be treated as a specified person.

15. (i) ABC Bank, accepted a Fixed Deposit (FD) for a sum of ₹ 20 lakhs in the name of Registrar General of the Court and issued a Fixed Deposit Receipt (FDR). The said FD was made in compliance of a direction passed by this Court in Execution Petition. The fixed deposits were renewed periodically, and interest accrued thereon. The bank did not deduct tax at source on such interest on the ground that the Registrar General was only a custodian of the funds and the ultimate beneficiary of the deposits could be identified only after the final adjudication of disputes.

The Income-tax Department initiated proceedings and treated the bank as an assessee in default under section 201, alleging non-compliance with section 194A. Examine whether interest accrued on fixed deposits maintained in the name of the Registrar General pursuant to court directions attracts TDS under Section 194A.

- (ii) M/s GreenEarth Resources Ltd. is engaged in extraction and sale of forest produce and minerals. During F.Y 2025-26, it sold timber obtained under a forest lease to M/s BuildWell Infrastructure Pvt. Ltd. and sold scrap generated from such operations to a resident

scrap dealer. In the same year, it supplied coal to M/s PowerGen Ltd. for generation of electricity, against which PowerGen Ltd. furnished a declaration stating that coal would be used only for power generation and not for trading. Further, GreenEarth Resources Ltd. granted a licence to operate a toll plaza near its mining site to M/s National Highways Authority Ltd., a public sector company, for business purposes. All amounts were debited to the respective parties' accounts before actual receipt.

Examine the applicability or otherwise of collection of tax at source, in respect of each transaction.

16. The regular assessment of Ms. Preeti for the A.Y. 2023-24 was completed u/s 143(3) on 16-07-2025. On 18-01-2026, she received a notice issued u/s 148 for income escaping assessment for the A.Y. 2023-24. Further, on 25-03-2026, during the pendency of such proceeding for income escaping assessment, the A.O. attaches the house property of Ms. Preeti.

Now, aggrieved Preeti seeks your opinion (being a Chartered Accountant) as to:

- (i) The circumstances under which the A.O. can make provisional attachment of property of the assessee.
- (ii) The period of time for which such attachment can take place.
- (iii) Can such attachment be revoked by the A.O. and if yes, how?

Discuss the relevant provisions of law to satisfy the aggrieved assessee, Ms. Preeti.

17. Lime Inc is a company incorporated under the laws of Country X. The value of its global assets are ₹ 510 crores. The value of assets in India are ₹ 256 crores. Its turnover during the P.Y. 2025-26 is Country X \$ equivalent to ₹ 900 crores. Out of 10 board meetings held during the F.Y.2025-26, only 4 meetings are held in India. The key management and commercial decisions for conduct of the company's business as a whole are, however, made by the directors located in India at the meetings held in India.

Your client, Hide Rise Ltd, an Indian company, wishes to remit an amount towards professional fees to Lime Inc. on which tax is required to be deducted in India.

Determine the residential status of Lime Inc. for A.Y.2026-27 under the Income-tax Act, 1961. Advise Hide Rise Ltd as to whether tax on fees for professional services paid to Lime Inc. has to be deducted under section 194J or section 195.

18. Mr. Ricardo, a non-resident holding 10% of the units of a REIT, earned the following income distributed by the REIT during the P.Y.2025-26:

(i)	Rental Income from real estate property owned by REIT	2,51,000
(ii)	Interest Income of REIT from Grey Ltd.	86,000
(iii)	Dividend Income of REIT from Grey Ltd.	42,000

He acquired units in the REIT at an issue price of ₹ 15 lakhs. He does not have any other income during the year. During the P.Y. 2025-26, apart from interest, rental income, dividend income and the income taxable in the hands of REIT, ₹ 2 crore also distributed to its unit holders.

Grey Ltd. is an Indian company in which the REIT holds controlling interest. The REIT holds 100% of shareholding of Grey Ltd. Grey Ltd. does not exercise option under section 115BAA.

Examine whether the above components of the income distributed by REIT would be chargeable to tax in the hands of Mr. Ricardo. Also, examine whether the REIT is required to deduct tax at source on such income distributed to Mr. Ricardo.

Would your answer change if Grey Ltd. exercises option under section 115BAA for A.Y.2026-27?

19. Trex Ltd., an Indian Company, on 01-04-2024 has borrowed ₹ 90 crores from M/s Refine Inc, a Company incorporated in Country S, at an interest rate of 8% p.a. The said loan is repayable over a period of 12 years. Further, loan is guaranteed by Prestige Inc incorporated in Country P. Bright Inc, a non-resident, holds shares carrying 40% of voting power both in Trex Ltd. and Prestige Inc. Bright Inc has also deposited ₹ 90 crores with M/s Refine Inc. Trex Ltd. repaid ₹ 10 crores on 31.3.2025.

The net profit of the Financial Year 2025-26 of Trex Ltd. was ₹ 18 crores after debiting the above interest, depreciation of ₹ 4 crores and income-tax of ₹ 2.70 crores. For Financial Year 2024-25, disallowance under section 94B was ₹ 7.5 crores.

Trex Ltd. wants to know the amount of interest allowable as deduction under the head "Profits and gains of business or profession" for the P.Y. 2025-26.

20. Mr. Shrestha, a resident individual aged 34 years, furnishes the following information relating to the previous year 2025-26:

Gross receipts from business carried on from Jaipur - ₹ 26,00,000

Expenditure incurred in respect of earning such receipts (to the extent allowable as per the provisions of the Income-tax Act) - ₹ 3,50,000

Rent received in Country M in respect of a residential property situated therein - ₹ 95,000 per month.

Expenditure incurred in relation to current repairs and maintenance of the property - ₹ 5,25,000

Receipt from agricultural operations in Country M's companies - ₹ 18,00,000

Expenditure incurred in earning such agricultural income - ₹ 8,50,000

Dividend income from Country M - ₹ 4,20,000

The taxation regime of Country M provides the following:

- (i) Agricultural income is exempt in country M
- (ii) All other incomes (after providing for deductions for expenses) taxable at flat rate of 20%.

Compute total income and the net tax liability of Shrestha on the assumption that there is no DTAA between India and Country M and he has not opted out of default tax regime contained in section 115BAC(1A).

**SUGGESTED ANSWERS**

MCQ No.	Most Appropriate Answer		MCQ No.	Most Appropriate Answer
1.	(a)		7.	(b)
2.	(c)		8.	(a)
3.	(b)		9.	(a)
4.	(a)		10.	(d)
5.	(c)		11.	(c)
6.	(b)		12.	(b)

13. Computation of total income of M/s Strong Private Limited for the A.Y. 2026-27 under regular provisions of the Act

	Particulars	Amount in ₹	
I	Profits and gains of business and profession		
	Net profit as per Statement of profit and loss		85,20,000
	Add: Items debited but to be considered separately or to be disallowed		
	(a) Depreciation as per books	10,15,000	
	(b) Employee's contribution to EPF	8,00,000	
	[Since employee's contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction under section 36(1)(va). Since the same has been debited to statement of profit and loss, it has to be added		

	back while computing business income.		
(b)	Employer's contribution to EPF [As per section 43B, employer's contribution to EPF is allowable as deduction since the same has been deposited on or before the due date of filing return of income under section 139(1). Since the same has been debited to statement of profit and loss, no further adjustment is required.]	-	
(c)	Contribution to National Laboratory [Contribution to National laboratory for scientific research qualifies for deduction under section 35(2AA). Since the same has been debited to the statement of profit and loss, no adjustment is required.]	-	
(d)	Advertisement expenses [The amount of ₹ 55,000 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B). Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income. However, such expenditure is eligible for deduction u/s 8DGGGB]	55,000	
(e)	Provision for gratuity [Provision of ₹ 5 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A(7). However, actual gratuity of	3,80,000	

	₹ 1,20,000 paid is allowable as deduction. Hence, the difference is added back]		
(f)	Overvaluation of Opening and Closing stock [The difference between ₹ 10,35,000, being overvaluation in opening inventory - ₹ 8,85,000 being cost included in closing inventory is added back]	1,50,000	
(i)	Loss of cash in transit [Since the loss is due to theft which took place when cash was withdrawn from bank and taken to administrative office, it is incidental to business and thus, allowable as revenue expenditure. Since the same has already been charged as revenue expenditure, no further adjustment is required]	-	
Al. (iii)	Expenditure pertaining to last year paid in cash [Since the expenditure was allowed on due basis in last year and the payment exceeding ₹ 10,000 is made in cash in a day, the ₹ 85,000 will be deemed as income under section 40A(3A) in P.Y. 2025-26.]	85,000	
Al. (iv)	Waiver of liability [Amount waived by the supplier of raw materials is a deemed income under section 41(1), as the expenditure was allowed as deduction in the last year and there is a benefit by way of remission or cessation of a trading liability]	4,00,000	28,85,000
			1,14,05,000

Less: Items credited but chargeable to under another head/expenses tax allowed but not debited			
(g) Dividend received from foreign company [Dividend received from foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income.]	3,00,000		
(h) Profit on sale of units of the equity oriented fund [Profit on sale of units of the equity oriented fund is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income.]	7,00,000	10,00,000	
			1,04,05,000
Less: Depreciation as per Income-tax Rules, 1962			
- Depreciation given in the question	8,50,000		
- Depreciation on power generation plant			
Normal Depreciation [₹ 15,00,000 x 15%] (₹ 25,00,000 - ₹ 3,00,000 - ₹ 7,00,000 = ₹ 15,00,000)	2,25,000		
- Additional Deprecation [₹ 15,00,000 x 20%]	3,00,000	13,75,000	
[As per second proviso to section 43(1), any amount more than ₹ 10,000			

	paid in a single day to a single person otherwise by account payee cheque or account payee bank draft or electronic clearing system then it should not be part of actual cost, so advance paid to supplier is not part of actual cost. As per <i>Explanation 10</i> of section 43(1), Government grant related to acquisition of asset shall be reduced while calculating actual cost]		
			90,30,000
II Capital Gain	Long term capital gain on sale of units of the equity oriented fund [Since units were held for more than 12 months]		
	Full value of consideration	11,00,000	
	Less: Cost of acquisition	4,00,000	7,00,000
III Income from Other Source	Dividend received from foreign company		3,00,000
	Gross Total Income		1,00,30,000
	Less: Deduction under Chapter VI-A		
	Deduction u/s 80GGB [Contribution to Political party]		55,000
	Deduction u/s 80M in respect of inter corporate dividends [Since M/s Strong Private Limited distributed dividend after the due date, being the date one month prior to the date for furnishing return of income specified u/s 139(1), no deduction will be allowed during the P.Y. 2025-26]		-
	Total Income		99,75,000

Computation of tax liability as per normal provisions of the Act

Particulars	Amount (₹)
Tax on long-term capital gains in excess of ₹ 1.25 lakhs @12.5% u/s 112A [₹ 5,75,000 x 12.5%]	71,875
Tax on business income @25% of ₹ 92,75,000 [since the turnover for the previous year 2023-24 does not exceeds ₹ 400 crores]	23,18,750
	23,90,625
Add: Health and education cess @4%	95,625
Tax liability	24,86,250

Computation of total Income of M/s Strong Private Limited chargeable to tax for the A.Y. 2026-27 under concessional regime u/s 115BAA

Particulars	Amount (₹)
Total Income under regular provisions of the Act	99,75,000
Add: Additional depreciation on plant [Not allowable u/s 115BAA]	3,00,000
Add: Contribution to National Laboratory [Deduction u/s 35(2AA) is not allowable u/s 115BAA]	1,50,000
Add: Deduction under Chapter VI-A Under section 80GGB [Not allowable under section 115BAA]	55,000
Total Income as per section 115BAA	1,04,80,000
Computation of tax liability	
Tax on long-term capital gains in excess of ₹ 1.25 lakh @12.5% u/s 112A [₹ 5,75,000 x 12.5%]	71,875
Tax on other income of ₹ 97,80,000 @ 22%	21,51,600
	22,23,475
Add: Surcharge @ 10%	2,22,348
	24,45,823

Add: Health and education cess @4%	97,833
Tax liability	25,43,656
Tax liability (Rounded off)	25,43,660

Since the tax liability of M/s Strong Private Limited computed under regular provisions of the Act is lower than the tax liability computed under section 115BAA, it is beneficial for M/s Strong Private Limited not to opt for the special provisions under section 115BAA for A.Y.2026-27.

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

Therefore, a charitable trust cannot claim exemption under section 10(15) in respect of interest income, since it has voluntarily opted for the special dispensation under sections 11 to 13, and consequently has to be governed by the provisions of these sections. However, it can claim exemption under section 10(1) in respect of agricultural income, since section 11(7) provides an exception in respect of such income.

Therefore, the claim of Sahitya charitable trust, as regards exemption under section 10(15), is not correct.

- (ii) As per section 13(3), a relative (wife, in this case) of the founder is regarded as a specified person, and therefore any use or application of the income or property of the trust for her benefit attracts examination under section 13. Further, section 13(2)(b) provides that where any land, building or other property of the trust is made available for the use of a specified person without charging adequate rent or compensation, such use shall be deemed to be application of trust property for the benefit of that person.

In the present case, the trust has charged rent of ₹ 20,000 per month whereas the prevailing market rent for similar properties is ₹ 70,000 per month, which clearly indicates that the rent charged is not adequate. Consequently, the provisions of section 13(1)(c)

become applicable and such part of income or property would not be eligible for exemption and would be taxed under section 115BBI at 30%. Further, to avoid income of the trusts or institutions to be used for the benefit of specified persons under section 13(3), penalty is leviable under 271AAE on the amount of income provided as a benefit.

- (iii) Mr. Karan's status has to be examined with reference to section 13(3)(b), which provides that any person whose contribution during the relevant previous year exceeds ₹ 1 lakh, or whose aggregate contribution up to the end of the relevant previous year exceeds ₹ 10 lakh, shall be treated as a specified person.

In the present case, although Mr. Karan contributed only ₹ 75,000 during the Financial Year 2025-26, his aggregate contribution to the trust amounts to ₹ 10,25,000, which exceeds the prescribed aggregate limit of ₹10 lakh. Therefore, he qualifies as a person referred to in section 13(3), and any use or application of the income or property of the trust for his direct or indirect benefit will attract the provisions of section 13(1)(c).

During the year, the trust sold hospital furniture to Mr. Karan for ₹ 1,20,000 against a fair market value of ₹ 2,80,000. Since the property has been sold for inadequate consideration to a specified person, the transaction falls within the scope of section 13(2)(f), which deems such arrangements as application of trust property for the benefit of a specified person.

As a result, the provisions of section 13(1)(c) become applicable and such part of income or property would not be eligible for exemption and would be taxed under section 115BBI at 30%. Further, to avoid income of the trusts or institutions to be used for the benefit of specified persons under section 13(3), penalty is leviable under 271AAE on the amount of income provided as a benefit.

15. (i) The same issue came before the Delhi High Court in the case of *UCO Bank v. Dy. CIT (2014) 369 ITR 335*, wherein the High Court noted that the expression "payee" u/s 194A would mean the recipient of income

whose account is maintained by the person paying interest. The Registrar General is neither recipient of the amount credited to his account nor to interest accruing thereon. Therefore, he cannot be considered as a 'payee' for the purposes of section 194A. In the absence of a payee, the machinery provisions for deduction of tax to his credit are ineffective. The credit by the bank in the name of the Registrar General would, thus, not attract the provisions of section 194A.

Note - The CBDT has accepted the aforesaid judgment and accordingly, vide Circular No. 23/2015 dated 28.12.2015, clarified that interest on FDR made in the name of Registrar General of the Court or the depositor of the fund on the directions of the Court, will not be subject to TDS till the matter is decided by the Court. However, once the Court decides the ownership of the money lying in the fixed deposit, the provisions of section 194A will apply to the recipient of the income.

- (ii) Under section 206C(1), a seller is required to collect tax at source (TCS) at the time of debit to the buyer's account or receipt of consideration, whichever is earlier, on sale of specified goods.

(i) Sale of timber obtained under a forest lease

Timber obtained under a forest lease is a specified good under section 206C(1). Accordingly, M/s GreenEarth Resources Ltd. is liable to collect TCS at 2% on the sale value of timber at the time of debit or receipt, whichever is earlier.

(ii) Sale of scrap

Scrap is also a specified good under section 206C(1). Hence, TCS is required to be collected by M/s GreenEarth Resources Ltd. @1% at the time of debit or receipt of sale consideration, whichever is earlier.

(iii) Sale of coal for power generation

Coal is a specified mineral under section 206C(1), liable to TCS @ 1%. However, since the buyer furnished a declaration stating that coal would be used for generation of power and not for trading purposes, no TCS is required to be collected in view of section 206C(1A).

(iv) Licence to operate toll plaza to a public sector company

Section 206C(1C) applies to collection of TCS at 2% on grant of licence for operating a toll plaza, except where the licensee is a public sector company. Since the licence is granted to M/s National Highways Authority Ltd., a public sector company, TCS is not applicable in this case.

- 16.** (i) As per section 281B(1), the Assessing Officer is empowered to provisionally attach any property of Ms. Preeti, by an order in writing, during the pendency of assessment or reassessment proceedings, with the prior approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner or Principal Director General or Director General or Principal Director or Director, if he is of the opinion that it is necessary to do so for the purpose of protecting the interests of the revenue.

- (ii) As per section 281B(2), the provisional attachment shall be valid for a period of 6 months from the date of the order issued for provisional attachment.

However, the above mentioned income-tax authority may extend the period of provisional attachment, for reasons to be recorded in writing, by a further period as he thinks fit.

However, the total period of extension shall not exceed two years or sixty days after the date of assessment or reassessment, whichever is later.

- (iii) Section 281B(3) empowers the Assessing Officer to revoke, by an order in writing, provisional attachment of property if Ms. Preeti furnishes a guarantee from a scheduled bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the revenue.

- 17.** In the given case, Lime Inc. is a company incorporated under the laws of Country X. It is a foreign company under the Income-tax Act, 1961. However, the said company shall be considered to be resident in India if its place of effective management is in India.

In this case, the company does not satisfy the active business outside India test since 50% of its assets are located in India. Therefore, since it has failed the active business outside India test on account of 50% of its assets being located in India, the persons who take key management and commercial decisions for conduct of the company's business as a whole and the place where the decisions are made are the key factors in determining whether the POEM of the company is in India. The facts of the case clearly state that the key management decisions and commercial decisions for conduct of the company's business as a whole are made by the directors located in India and at the meetings held in India.

Therefore, the POEM of Lime Inc. is in India in the P.Y.2025-26, irrespective of the fact that majority of the board meetings are held outside India.

Section 194J applies when professional fees are being paid to a resident, whereas section 195 applies when payments are made to a non-corporate non-resident or a foreign company. Section 194J is income specific and section 195 is payee specific. CBDT *vide Notification No. 29/2018 dated 22nd June 2018* has clarified that where more than one provision of Chapter XVII-B of the Act applies to the foreign company as resident as well as a foreign company, the provision applicable to the foreign company alone shall apply.

Hence, Hide Rise Ltd shall deduct tax under section 195 while making payment of fees for professional services to Lime Inc., a foreign company resident in India.

18. The REIT enjoys pass-through status in respect of rental income from real estate asset owned by it directly, interest income and dividend from special purpose vehicle, (i.e., Grey Ltd., in this case, since it is an Indian company in which REIT holds controlling interest). Therefore, rental income from real estate asset owned by it directly and interest income is taxable in the hands of the unit holders. In respect of dividend income from special purpose vehicle, REIT enjoys pass-through status. However, if SPV is not opting for the provisions of section 115BAA, the dividend income component would be exempt in the hands of the unit holder. If the SPV is exercising the option under section 115BAA, dividend income component would be taxable in the hands of unit holder. Any specified

sum received by a unitholder from a REIT would be chargeable to tax in the hands of unitholder as "Income from other sources".

- (1) **Rental income component of income distributed by REIT:** The distributed income or any part thereof, received by Ricardo from the REIT, which is in the nature of income by way of renting or leasing or letting out any real estate asset owned directly by such REIT is deemed income of the unit-holder as per section 115UA(3). Accordingly, ₹ 2,51,000 would be deemed income of Ricardo as per section 115UA(3). The REIT has to deduct tax at source under section 194LBA@31.2% (being the rate in force) in case of distribution to Ricardo, being a non-resident.
- (2) **Interest component of income distributed by REIT:** Interest component of income received from a special purpose vehicle, Grey Ltd., in this case, and distributed to a unit holder is taxable in the hands of the unit holder. Accordingly, such interest component of ₹ 86,000 is taxable in the hands of Ricardo. The REIT has to deduct tax at source under section 194LBA @5.2%, on ₹ 86,000, since Ricardo is a non-resident.
- (3) **Dividend component of income distributed by REIT:** By virtue of section 10(23FD), ₹ 42,000, being the dividend component of income distributed to Ricardo would be exempt in his hands. Therefore, there is no liability on the REIT to deduct tax at source on the dividend component of income distributed by it to Mr. Ricardo.

However, if Grey Ltd. has exercised option under section 115BAA, then, the dividend income distributed by it would be subject to tax in the hands of the unitholders. Accordingly, ₹ 42,000 is taxable in the hands of Mr. Ricardo. The REIT has to deduct tax at source@10.4% on ₹ 42,000, since Mr. Ricardo is a non-resident.
- (4) **Specified sum distributed by the REIT:** Any sum other than interest, dividend received from SPV, rental income and income which are chargeable to tax in the hands of REIT, would be chargeable to tax under section 56(2)(xii) in the hands of unitholders as income from other sources. Accordingly, in the present case, ₹ 5,00,000 [₹ 20 lakhs, being 10% of ₹ 2 crores

Less ₹ 15 lakhs, being the issue price of units held by Mr. Ricardo would be taxable as Income from other sources. On such sum, no tax is required to be deducted at source by the REIT.

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

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

In the present case, since Bright Inc. holds 40% of voting power i.e., 26% or more of voting power in both Trex Ltd and Prestige Inc., Trex Ltd. and Prestige Inc. are deemed to be associated enterprises.

Since loan of ₹ 90 crores taken by Trex Ltd., an Indian company from Refine Inc, is guaranteed by Prestige Inc, an associated enterprise of Trex Ltd., such debt shall be deemed to have been issued by an associated enterprise and interest payable to Refine Inc shall be considered for the purpose of limitation of interest deduction under section 94B.

Computation of interest to be allowed in the computation of income under the head profits and gains of business or profession of Trex Ltd.

Particulars	₹
Net profit	18,00,00,000
Add: Interest already debited (₹ 80 crores x 8%)	6,40,00,000
Depreciation	4,00,00,000
Income tax	<u>2,70,00,000</u>
EBITDA	<u>31,10,00,000</u>

Interest paid or payable by Trex Ltd.	6,40,00,000
Less: Excess interest – Lower of Interest paid or payable in excess of 30% of EBITDA - ₹ 6,40,00,000 (-) ₹ 9,33,00,000	Nil
Interest paid or payable to non-resident AE	₹ 6,40,00,000
Interest disallowed during the P.Y. 2024-25 can be set-off to the extent of maximum allowable interest after reducing the current year interest i.e., ₹ 2,93,00,000	Nil
Interest allowable as deduction for P.Y. 2025-26	2,93,00,000
	<u>9,33,00,000</u>

Note – Since Bright Inc., an associated enterprise of Trex Ltd., has deposited a matching amount with Refine Inc., the interest payable by Trex Ltd. to Refine Inc. on loan of ₹ 80 crores borrowed from Refine Inc. would be subject to limitation of interest deduction on the basis of this line of reasoning also.

20. Computation of total Income and net tax liability of Mr. Shrestha for AY 2026-27

	₹	₹
Income from House Property in country M		
Net Annual Value [Rent received (₹ 95,000 x 12)]	11,40,000	
Less: Standards Deduction @30%	<u>3,42,000</u>	7,98,000
Profits and gains from business or profession		
Gross receipts from business in India	26,00,000	
Less: Expenditure incurred in earning such receipts	<u>3,50,000</u>	22,50,000
Income from other sources		
Agricultural Income [not exempt u/s 10(1)]	18,00,000	

Less: Expenditure Incurred in earning such income	<u>8,50,000</u>	
Since agricultural income from country M is not exempt, expenses incurred will be allowed as deduction		
	9,50,000	
Dividend income from Country M's Companies	<u>4,20,000</u>	<u>13,70,000</u>
Gross total income/Total Income		44,18,000
Tax on total income [₹ 3,00,000 (Upto ₹ 24,00,000) + 30% on ₹ 20,18,000]		9,05,400
Add: Health and Education Cess @4%		<u>36,216</u>
		9,41,616
Less: Relief u/s 91		
Average rate of tax in India: ₹ 9,41,616 x 100/ ₹ 44,18,000	21.31%	
Rate of tax in Country M	20%	
Doubly taxed income:		
Rental Income in country M - Lower of the following:	6,15,000	
Taxable in India	7,98,000	
Taxable in Country M [(₹ 95,000 x 12) – ₹ 5,25,000]	6,15,000	
Dividend income	<u>4,20,000</u>	
	10,35,000	
Rebate under section 91 in respect of doubly taxed income of ₹ 10,35,000@20%.		<u>2,07,000</u>
Net tax liability		7,34,616
Net tax liability (Rounded off)		7,34,620



PAPER – 5: INDIRECT TAX LAWS

- (1) All questions have been answered on the basis of position of (i) GST law as amended by the Finance Act, 2025 including significant notifications and circulars and other legislative amendments made, which are effective up to 31st October, 2025 and (ii) customs law as amended by the Finance Act, 2025 including significant notifications and circulars and other legislative amendments made, which are effective up to 31st October, 2025.
- (2) Unless otherwise specified, the section numbers and rules referred in questions and answers relating to GST pertain to the Central Goods and Services Tax Act, 2017 and the Central Goods and Services Tax Rules, 2017 respectively.
- (3) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. The rates of customs duty are also hypothetical and may not necessarily be the actual rates. Further, GST compensation cess should be ignored in all the questions, wherever applicable.



QUESTIONS

Case scenario – I

Carbonlite Industries Ltd. (CIL) is supplier registered under GST in Ahmedabad, Gujarat. It is engaged in manufacture of smart watches and supply of various other goods and services. The smart watches are supplied with a standard warranty period of 1 year. In addition, CIL also offers an optional extended warranty for a further period of 6 months under separate agreement entered

into with various customers for smart watches sold through its distributors. Extended warranty is effective after expiry of original warranty which has been provided at the time of actual sale of smart watches. It provides the details of various activities undertaken by it during the month of October as follows:

(A)	Details of outward supplies				Amount (₹)
i	Outward supply of smart watches with standard warranty period of 1 year to various distributors during the month –				50,00,000
	a.	Within Gujarat		15,00,000	
	b.	Outside Gujarat		35,00,000	
ii	Amount received by CIL for extended warranty provided by it -				
	Sr. No.	Particulars	For effected sales during the month of October	For effected sales during the month of September	
	a.	Within Gujarat	1,50,000	50,000	
	b.	Outside Gujarat	3,00,000	1,00,000	
iii	Cost of spare parts replenished by CIL to its distributors through delivery challans, without separately charging any consideration, for replacement of parts by the distributor to the customers under warranty –				55,000
	a.	Within Gujarat		25,000	
	b.	Outside Gujarat		30,000	
(B)	Details of inward supplies				Amount (₹)
i	Raw material imported from Germany [Value of the goods was worked out by the Customs authorities as ₹ 10,00,000 for the purpose of levy of IGST.]				–

ii	Debit note received from a distributor registered in the State of Karnataka for providing repair services on 2 nd October as part of warranty to one of the customers on behalf of CIL. No consideration was charged from the customer for the same. Date of issue of debit note for repairs undertaken was 25 th October and payment was made by CIL on same day.	15,000
iii	Purchase of goods on 21 st September from M/s Patagonia LLP, registered in Tamilnadu and filing monthly GSTR-1. M/s Patagonia LLP has filed its Form GSTR-1 for the month of September on 15 th October.	2,00,000
iv	Intra-State purchase of manufacturing machine sent directly to job worker's premises under delivery challan	4,00,000

The company provided the following additional information for the month of October:

- (i) CIL took delivery of the raw material imported Germany from Kandla Port, Gujarat on 13th October after payment of applicable customs duty and social welfare surcharge @ 10%.
- (ii) CIL supplied taxable goods in the territorial waters to InnoMek Builders for ₹ 6,00,000. Territorial waters is located at a distance of 12 nautical miles from the baseline of Kerala and 15 nautical miles from the baseline of Tamil nadu.
- (iii) CIL supplied solar panels (used for business purpose & on which no ITC has been taken yet) given free of cost to unrelated person based in Gujarat.
[Purchased 2 years' back at a price of ₹ 1,12,100 (including GST). Open market value is ₹ 75,000.]
- (iv) CIL supplied moulds and dies owned by it to unrelated component manufacturers free of cost in October; market value of the same was ₹ 3,30,000.
- (v) CIL provided free training on 'Sales & Customer Engagement Skills' to all its agents free of cost in October; cost of such training was ₹ 1,80,000.

- (vii) Opening balance of input tax credit at the beginning of October is ₹ 95,000 -CGST, ₹ 65,000 -SGST and ₹ 5,25,000 -IGST.
- (viii) All the figures given are exclusive of GST, wherever applicable, except stated otherwise.
- (ix) Subject to the information given above, all other conditions necessary for claiming ITC were complied with.
- (x) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supply of goods and services, except warranty services for which rates of CGST, SGST and IGST are 2.5%, 2.5% and 5% respectively.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:

1. Which of the following activities/ transactions undertaken by CIL do not amount to supply?
 - (i) Supply of taxable goods in territorial waters.
 - (ii) Solar panels being used for business purpose given free of cost to unrelated person.
 - (iii) Supply of moulds and dies owned by it to unrelated component manufacturers free of cost.
 - (iv) Free of cost training provided to agents.

Choose the most appropriate option.

 - (a) (ii) and (iv)
 - (b) (ii), (iii) and (iv)
 - (c) (i), (iii) and (iv)
 - (d) (i), (ii) and (iii)
2. GST payable on smart watches supplied along with extended warranty offered for sales in October is _____.
 - (a) CGST - ₹ 1,35,000, SGST - ₹ 1,35,000 and IGST- ₹ 6,30,000
 - (b) CGST - ₹ 1,48,500, SGST - ₹ 1,48,500 and IGST- ₹ 6,84,000

- (c) CGST - ₹ 1,38,750, SGST - ₹ 1,38,750 and IGST- ₹ 6,45,000
- (d) CGST - ₹ 1,35,000, SGST - ₹ 1,35,000 and IGST- ₹ 6,45,000
3. GST payable on extended warranty offered for sales effected in September is _____.
- (a) CGST - ₹ 4,500, SGST - ₹ 4,500 and IGST- ₹ 18,000
- (b) CGST - ₹ 4,500, SGST - ₹ 4,500 and IGST- ₹ 5,000
- (c) CGST - ₹ 1,250, SGST - ₹ 1,250 and IGST- ₹ 5,000
- (d) CGST - ₹ 1,250, SGST - ₹ 1,250 and IGST- ₹ 18,000
4. GST payable on the spare parts replenished by CIL to its distributors for replacement of parts by the distributor to the customers under warranty is _____.
- (a) CGST - ₹ 625, SGST - ₹ 625 and IGST- ₹ 1,500
- (b) CGST - ₹ 2,250, SGST - ₹ 2,250 and IGST- ₹ 5,400
- (c) CGST - ₹ 2,875, SGST - ₹ 2,875 and IGST- ₹ 6,900
- (d) CGST - Nil, SGST - Nil and IGST - Nil
5. Amount of ITC admissible to CIL for the month of October is _____.
- (a) CGST - ₹ 1,31,000, SGST - ₹ 1,01,000 and IGST- ₹ 7,43,700
- (b) CGST - ₹ 1,33,500, SGST - ₹ 1,03,500 and IGST- ₹ 7,05,000
- (c) CGST - ₹ 95,000, SGST - ₹ 65,000 and IGST- ₹ 7,05,000
- (d) CGST - ₹ 95,000, SGST - ₹ 65,000 and IGST- ₹ 7,07,700
6. Place of supply of goods in territorial waters is _____ and tax payable on the same is _____.
- (a) Gujarat, CGST - ₹ 54,000 and SGST - ₹ 54,000
- (b) Kerala, IGST- ₹ 1,08,000
- (c) Tamil Nadu, IGST- ₹ 1,08,000
- (d) Tamil Nadu, CGST - ₹ 54,000 and SGST - ₹ 54,000

Case scenario – II

HydroCool Enterprises, a partnership firm, is a supplier of water coolers located in Kota, Rajasthan, and is duly registered under the GST law in the State of Rajasthan. It undertakes both intra-State and inter-State supplies in the ordinary course of trade.

In the month of January, HydroCool Enterprises supplied water coolers to ChillPure Traders, Kerela, an unrelated party, for a total consideration of ₹ 2,95,000 (inclusive of GST @ 18%). In addition to this monetary payment, ChillPure Traders also provided certain materials to HydroCool Enterprises as an additional consideration. These materials were valued at ₹ 10,000 (exclusive of GST). At the same time, HydroCool Enterprises supplied water coolers of the same quality and specifications to another unrelated customer for a price of ₹ 2,97,360 (inclusive of GST @ 18%).

HydroCool Enterprises also entered into a contractual arrangement with Apexion Innovations (Bengaluru, Karnataka), an Information Technology service provider, for availing data backup and database access services. The details of said services availed are as follows:

Particulars	Date
Apexion Innovations raised an invoice on HydroCool Enterprises for data backup and database access service.	21 st February
HydroCool Enterprises issued and dispatched a demand draft as payment.	25 th February
Demand draft was received and recorded in the books of Apexion Innovations.	28 th February
Apexion Innovations encashed the demand draft	3 rd March
Apexion Innovations provided database access to HydroCool Enterprises.	4 th March onwards

In the meanwhile, the rate of GST is changed from existing 18% to 5% from 1st March.

In February, HydroCool Enterprises got a favourable advance ruling order on a particular issue from the Authority for Advance Ruling, Rajasthan. The application was filed by HydroCool Enterprises through its registered place of business in Rajasthan.

In the month of March, as the financial year drew to a close, HydroCool Enterprises launched a special performance-linked incentive scheme to motivate its sales team. Under this scheme, each employee who achieved the targeted sales milestone was rewarded with a total incentive payment of ₹ 75,000. The incentive was part of the employees' salary structure, formed part of employment remuneration and was subject to applicable tax deduction at source (TDS) under the Income-tax Act.

HydroCool Enterprises intended to transfer the business as going concern to Dhruv & Sons (DS) on 31st March. As per the terms of transfer, HydroCool Enterprises will transfer all the business assets worth ₹ 15,00,000 and all the liabilities valued at ₹ 20,00,000. Balance of ITC as on 31st March is ₹ 40,000.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 7 to 11 below:

7. Determine the value of water coolers supplied in January by HydroCool Enterprises to ChillPure Traders.
 - (a) ₹ 2,50,000
 - (b) ₹ 2,52,000
 - (c) ₹ 2,40,000
 - (d) ₹ 2,60,000
8. Time of supply of the data backup and database access services provided by Apexion Innovations is:
 - (a) 21st February
 - (b) 25th February
 - (c) 28th February
 - (d) 1st March

9. In case of transfer of business to DS, what is the amount of input tax credit which shall stand transferred to DS?
- (a) ₹ 20,000
 - (b) ₹ 40,000
 - (c) Nil. In case of partnership firm input tax credit cannot be transferred on account of transfer of business.
 - (d) Nil as the value of liabilities is more than the value of assets.
10. Which of the following statements is correct with respect to incentive paid to the employees in March?
- (a) GST is payable on incentive since the incentive is linked to sales performance and constitutes consideration for supply of services by employee.
 - (b) GST is payable on incentive since incentives are not covered under Schedule III.
 - (c) GST is not payable on incentive since it is covered under Schedule III.
 - (d) GST is payable on incentive since the incentive amount exceeds ₹ 50,000 per employee in a financial year.
11. In relation to the advance ruling order received by HydroCool Enterprises in Rajasthan,
- (a) the order is binding on HydroCool Enterprises only in Rajasthan but on jurisdictional officers across all registrations of the firm in India.
 - (b) the order is binding on HydroCool Enterprises across all States in India.
 - (c) the order is binding on HydroCool Enterprises and the jurisdictional officer, in Rajasthan.
 - (d) the order is binding on HydroCool Enterprises and the jurisdictional officers across all registrations of the firm in India.

12. Bharti Company imported goods valued at ₹ 10,00,000 vide a Bill of Entry presented before the proper officer on 15th July on which date the rate of customs duty was 20%. The proper officer decided that the goods should be subject to chemical or other test and therefore, the same were provisionally assessed at a value of ₹ 10,00,000 and Bharti company paid provisional duty of ₹ 2,00,000 on the same date. Bharti Company wants to voluntarily pay duty of ₹ 1,50,000 on 20th August.

The amount of interest payable under section 18 of the Customs Act, 1962 is _____ assuming that the payment of ₹ 1,50,000 as stated above is made on 20th August, and that the final duty is assessed on 31st August at ₹ 4,00,000 and the balance duty is paid on the same day.

- (a) Nil
 (b) ₹ 3,144
 (c) ₹ 1,274
 (d) ₹ 4,418
13. Earthovia Ltd., a registered entity under GST in the State of Maharashtra, is engaged in making various supplies. It provides the following information for the month of April:

S. No.	Particulars	Amount (₹)
	OUTWARD SUPPLY:	
(i)	Information technology services provided to unrelated clients located in foreign countries. In all cases, the consideration has been received in convertible foreign exchange	20,00,000
(ii)	Supplied 50 bluetooth speakers at Hyderabad to the State Government of Telangana.	8,00,000
	Charging cables mandatorily required for charging the bluetooth speakers were also supplied along with these speakers.	72,000

(iii)	Provided intra-State service as a Direct Selling Agent (D.S.A.) to Ujjval Growth Small Finance Bank Limited for their retail loan products	3,80,000
(iv)	Passenger transportation service provided to tourists by the company owned ferries between two islands in the State of Maharashtra for tourism purpose.	1,20,000
(v)	Supplied goods to its agent in the State of Bihar. Open market value of the said goods were ₹ 3,00,000. The said agent is supplying goods of like kind and quality to his unrelated customer at ₹ 3,20,000.	
	INWARD SUPPLY:	
(i)	Purchased silk yarn (to be used as raw material) from Mr. Subhash, who manufactures silk yarn from raw silk. Mr. Subhash is registered in the State of Maharashtra.	4,00,000
(ii)	Purchased a new truck from a dealer in Cochin, Kerala for transport of materials. The company claimed depreciation under the Income-tax Act on the value of new truck purchased including all applicable taxes.	14,00,000
(iii)	Fees paid to a Chartered Accountant - Mr. Prashant, registered in Gujarat (₹ 35,000 for the statutory audit of preceding financial year and ₹ 25,000 for certification work.)	2,00,000

The company provided the following additional information:

- (i) Earthovia Ltd. wishes to choose the most beneficial option in respect of supply to agent and branch transfer.
- (ii) Earthovia Ltd. transferred certain taxable items to its Kerala branch for distributing as free samples on the occasion of inauguration of said branch which is yet to be registered. Value declared in the invoice for transfer was ₹ 2.50 lakh whereas open market value of

the same was ₹ 3 lakh. Kerala branch has yet not sold such kind of goods to any of the customer.

- (iii) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supply of goods and services, except charging cable for which the rates of CGST, SGST and IGST are 2.5%, 2.5% and 5% respectively.
- (iv) All the amounts given above are exclusive of taxes, wherever applicable.
- (v) No inward supply is used for non-business purpose.
- (vi) There was no opening balance of any ITC.

From the information given above, you are required to compute the eligible Input Tax Credit (ITC) available and minimum net GST liability payable in cash (CGST, SGST or IGST, as the case may be) for the month of April for the Earthovia Ltd., Maharashtra.

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

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

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

The other relevant information is given hereunder:

Table 1

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

Table 2

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

The applicable rate of tax is as under:

CGST	SGST	IGST
9%	9%	18%

15. Sattva & Associates is a supplier of taxable goods. It has entered into a contract to supply a consignment 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 12th January, 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.

Sattva & Associates complies with the same and supplies the goods on 25th January thereafter paying the tax on provisional basis in respect of said consignment on 19th February.

Consequent to the final assessment order passed by the Assistant Commissioner of Central Tax on 21st March, a tax of ₹ 1,80,000 becomes due on the consignment.

Sattva & Associates pays the tax due on 9th April. Determine the interest payable, if any, by Sattva & Associates in the above case.

Assuming all the other facts remaining the same, if consequent to the final assessment order passed on 21st March, a tax of ₹ 4,20,000 becomes refundable on the consignment, refund of which is applied by Sattva & Associates on 9th April and tax was refunded to it on 5th June, determine the interest receivable, if any, by Sattva & Associates in the given case.

16. PrimeAxis Ltd. and BluePeak Ltd., two well-established manufacturing companies registered under GST in the State of Maharashtra, decided to strengthen their market presence by merging their operations. After following due legal procedures, they filed an application for merger before the Court. On 22nd May, the Court passed an order approving the merger, stating that it would take effect retrospectively from 1st April. However, an important transaction had already taken place on 15th May, wherein PrimeAxis Ltd. supplied a consignment of taxable goods to BluePeak Ltd.

The accountant of PrimeAxis Ltd. took the view that no GST was payable on this transaction. According to him, since the merger was effective from 1st April (as per the Court's order), both companies were deemed to be one entity from that date. Therefore, the transfer of goods on 15th May does not qualify as "supply" under GST. You are required to assess the technical veracity of the claim of the accountant of PrimeAxis Ltd.

17. Briefly illustrate the specific categories of services notified under section 9(5) the tax on supplies of which is payable by the electronic commerce operator (ECO) if such services are supplied through it.
18. David Ltd. is the manufacturer of semi-conductors in the State of Gujarat. It imported machinery by air from France for making sub parts

to be used in assembling of semi-conductor. The following particulars are furnished by it:

S. No.	Particulars	Amount US \$
i	CIF value of the machinery	50,000
ii	Freight paid (Air)	12,500
iii	Insurance charges	2,500

Additional information:

- (i) Design and patent charges of USD 2000 was required to be paid in France, which is not included in CIF value given above.
- (ii) Date of filing the Bill of entry was 24th September and the rate of exchange notified by CBIC on this date was ₹ 80 per US \$.
- (iii) Date of arrival of aircraft was 20th October and the rate of exchange notified by CBIC on this date was ₹ 84 per US \$.

From the above information, you are required to compute the assessable value under the Customs Act, 1962.

19. SuperArc Paper Mills Ltd. imported 500 tons of bamboo pulp paper rolls on 5th April. It warehoused the said rolls in its private bonded warehouse, as per the order dated 15th April permitting deposit of the said goods in warehouse for 5 months. The rate of customs duty applicable on the date of deposit was 5%.

SuperArc Paper Mills Ltd. filed an application for extension of warehousing period on 10th September which was rejected. So, an 'ex-bond bill of entry' was filed on 4th October claiming nil customs duty since the rate of customs duty on bamboo pulp paper rolls was exempted by virtue of an exemption notification with effect from 2nd October and valid till 15th October.

On 17th October under section 72 of the Customs Act, 1962, a notice has been issued to the company demanding customs duty @ 7.5%, rate being effective on the date of issue of notice along with interest.

You are required to determine the technical veracity of claim of SuperArc Paper Mills Ltd. and notice issued by the proper officer.

Explain in brief the relevant provisions of the Customs Act, 1962. Rates of customs duty mentioned here represents rates of basic customs duty.

20. Aurex Global Industries Ltd. imported certain machinery, and the customs authorities passed an assessment order determining the duty payable. Aurex Global Industries Ltd. was of the view that excess duty had been levied due to an incorrect classification adopted in the assessment order. However, Aurex Global Industries Ltd. paid the duty under protest. Subsequently, the company filed a refund application contending that the duty had been wrongly assessed and excess duty had been collected.

With reference to the principles laid down in a decided case law, if any, examine whether the refund claim filed by Aurex Global Industries Ltd. is maintainable in law.



SUGGESTED ANSWERS

Question No.	Answer
1.	(b) (ii), (iii) and (iv)
2.	(b) CGST - ₹ 1,48,500, SGST - ₹ 1,48,500 and IGST- ₹ 6,84,000
3.	(c) CGST - ₹ 1,250, SGST - ₹ 1,250 and IGST- ₹ 5,000
4.	(d) CGST - Nil, SGST - Nil and IGST - Nil
5.	(a) CGST - ₹ 1,31,000, SGST - ₹ 1,01,000 and IGST- ₹ 7,43,700
6.	(b) Kerala, IGST- ₹ 1,08,000
7.	(b) ₹ 2,52,000
8.	(a) 21 st February
9.	(b) ₹ 40,000
10.	(c) GST is not payable on incentive since it is covered under Schedule III of the CGST Act, 2017.

11.	(c) the order is binding on HydroCool Enterprises and the jurisdictional officer, in Rajasthan.
12.	(d) ₹ 4,418

13. Computation of minimum net GST payable in cash for the month of April

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
	Output tax liability				
(i)	Information technology services provided to unrelated clients located in foreign countries. [The activity is an export of service in terms of section 2(6) of the IGST Act, 2017 as- - the supplier of service is located in India; - the recipient of service is located outside India; - place of supply of service is outside India (in terms of section 13(2) of the IGST	20,00,000	-	-	Nil

	Act, 2017); • payment for the service has been received in convertible foreign exchange or in Indian rupees wherever permitted by the RBI; and • supplier of service and recipient of service are not merely establishments of distinct person. Export of services is a zero-rated supply in terms of section 16(1)(a) of the IGST Act, 2017. A zero-rated supply can be supplied without payment of tax under a LUT in terms of section 16(3)(a) of that Act.¹]				
(ii)	Supply of 50 bluetooth speakers	8,72,000 [8,00,000 + 72,000]	-	-	1,56,960 [8,72,000 × 18%]

¹ It is assumed that export has been made under LUT.

	[It is an inter-State supply since place of supply here is the location where the movement of goods terminates, viz. Hyderabad. Further, supply of bluetooth speaker with charging cable is a composite supply, chargeable to tax at the rate applicable to the principal supply (viz. supply of bluetooth speakers) i.e., 18%.]				
(iii)	Intra-State supply as Direct Selling Agent (DSA) [Taxable under forward charge. Reverse charge mechanism is not applicable since services are provided by a body corporate and not by an individual DSA.]	3,80,000	34,200 [3,80,000 × 9%]	34,200 [3,80,000 × 9%]	-
(iv)	Passenger transportation service	1,20,000	10,800	10,800	-

	[Passenger transportation service provided for tourism purpose, in a vessel between places located in India is taxable. Further, the place of supply of passenger transportation service to an unregistered person, shall be the place where the passenger embarks on the conveyance for a continuous journey. Thus, in the given case, place of supply is Maharashtra.]				
(v)	Supply of goods to an agent [Value of inter-State supply of goods to agent shall be: (i) Open Market Value (₹ 3,00,000) or (ii) 90% of the	2,88,000	-	-	51,840 [2,88,000 × 18%]

	price of goods of like kind and quality charged by recipient to unrelated customer [₹ 2,88,000 (3,20,000 × 90%)], at the option of supplier, in terms of rule 29 ²].				
(vi)	Inter-State transfer of taxable items to Kerala branch [Since recipient is not eligible for full ITC and goods are not intended for further supply as such by the recipient, value of supply of goods to branch shall be open market value, in terms of rule 28.]	3,00,000	-	-	54,000 [3,00,000 × 18%]
	Total output tax		45,000	45,000	2,62,800
	Less: ITC available		36,000	36,000	36,000

² Since the company wishes to choose most beneficial option, least of the two values has been taken.

	for set off [Refer note below]				
	Net GST payable		9,000	9,000	2,26,800
	Add: GST payable under reverse charge [Tax on silk yarn purchased by a registered person from any person who manufactures silk yarn from raw silk.]		36,000	36,000	
	Minimum net GST payable in cash		45,000	45,000	2,26,800

Note - Computation of eligible ITC available for set off

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
	Silk yarn purchased [Intra-State supply since place of supply is location where movement of goods terminates, viz. Maharashtra. Further, ITC	4,00,000	36,000 [4,00,000 × 9%]	36,000 [4,00,000 × 9%]	-

	on goods to be used in course or furtherance of business is available.]				
	Truck purchased [ITC of truck purchased is not available in terms of section 17(5) since depreciation has been claimed on the GST component.]	14,00,000	-	-	-
	Fees paid to a Chartered Accountant [It is inter-State supply since place of supply is Maharashtra. Further, services of the Chartered Accountant are being used in the course/furtherance of business and	2,00,000	-	-	36,000 [2,00,000 × 18%]

	thus, credit of input tax paid on such service is available.]				
	Eligible ITC available for set off		36,000	36,000	36,000

14. As per section 12(14) of the IGST Act, 2017, the place of supply of advertisement services to the Central Government, a State Government, a statutory body or a local authority meant for the States or Union territories identified in the contract or agreement is taken as being in each of such States or Union territories (where the advertisement is broadcasted/ run /played/disseminated).

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

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

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

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

- (i) the channel viewership figures for that channel for a State or Union territory shall be taken from the figures published in this regard by the Broadcast Audience Research Council;

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

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

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

States	Population as per latest census (in crores)	Population ratio in the States 'B' & 'C' and 'D' & 'E'	Proportionate value of advertisement services in the States 'A', 'B', 'C', 'D' & 'E'
A	50		₹ 2,50,000

B	180	B:C = 180:20 = 9:1	₹ 5,00,000 × 9/10 = ₹ 4,50,000
C	20		₹ 5,00,000 × 1/10 = ₹ 50,000
D	100	D:E = 100:25 = 4:1	₹ 2,50,000 × 4/5 = ₹ 2,00,000
E	25		₹ 2,50,000 × 1/5 = ₹ 50,000

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

Computation of GST liability of 'Buzz Box' TV channel

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

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

15. Section 60(4) 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 or after the issuance of order for final assessment.

In the given case, due date for payment of tax on goods cleared on 25th January under provisional assessment is 20th February.

In view of the provisions of section 60(4), in the given case, Sattva & Associates is liable to pay following interest in respect of the consignment of goods supplied:

$$= ₹ 1,80,000 \times 18\% \times 48/365$$

$$= ₹ 4,261 \text{ (rounded off)}$$

If, in the given case, it is assumed that consequent to the final assessment order passed on 21st March, a tax of ₹ 4,20,000 becomes refundable to Sattva & Associates, answer would be as follows:

Section 60(5) 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 (05th June) within 60 days from the date of receipt of application of refund (09th April), interest is not payable to Sattva & Associates on tax refunded.

16. As per section 87, when two or more companies are 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.

For the purposes of this Act, 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.

Thus, in the given case, then such transactions of supply and receipt shall be included in the turnover of supply and receipt of PrimeAxis Ltd. and BluePeak Ltd. respectively and they shall be liable to pay tax accordingly.

17. *Notification No. 17/2017 CT (R) dated 28.06.2017* as amended has notified the following categories of services supplied through electronic commerce operator (hereinafter referred as ECO) for this purpose –

- (a) Services by way of transportation of passengers by a radio-taxi, motorcab, maxicab, motorcycle, or any other motor vehicle except omnibus;
- (b) Services by way of transportation of passengers by an omnibus except where the person supplying such service through ECO is a company**.
- (c) Services by way of providing accommodation in hotels, inns, guest houses, clubs, campsites or other commercial places meant for residential or lodging purposes, except where the person supplying such service through electronic commerce operator is liable for registration under section 22(1).
- (d) Services by way of house-keeping, such as plumbing, carpentering etc, except where the person supplying such service through

electronic commerce operator is liable for registration under sub-section 22(1).

- (e) Supply of restaurant service other than the services supplied by restaurant, eating joints etc. located at specified premises.
- (f) Services by way of local delivery except where the person supplying such services through electronic commerce operator is liable for registration under section 22(1).

***The tax on services by way of transportation of passengers by an omnibus provided by a company through ECO is not payable by ECO. It will be payable by the company itself.*

18. Computation of assessable value of machinery

Particulars	Amount in \$
CIF price of the machine	50,000
Less: Freight	12,500
Less: Insurance	<u>2,500</u>
	35,000
Add: Design and patent charges paid in France (Note-1)	<u>2,000</u>
FOB value for customs	37,000
Add: Freight (Note-2)	7,400
Add: Insurance (Actual)	<u>2,500</u>
CIF value for customs purpose	46,900
Assessable value in rupees $[46,900 \times 80]$ (Note-3)	37,52,000

Notes

1. Design and engineering work undertaken elsewhere than in India and necessary for the production of the imported goods is includible in the assessable value [Rule 10(1)(b)(iv) of the Customs (Determination of Value of Imported Goods) Rules, 2007 (hereinafter referred as CVR)].

2. If the goods are imported by air, the freight cannot exceed 20% of FOB price [Fifth proviso to rule 10(2) of the CVR].
 3. The rate of exchange notified by the CBIC on the date of presentation of bill of entry has been considered [Section 14 of the Customs Act, 1962].
- 19.** As per section 72 of the Customs Act, 1962, the proper officer may demand, the full amount of duty chargeable on account of warehoused goods together with interest, fine and penalties payable in respect of such goods, where any warehoused goods have not been removed from a warehouse at the expiration of the period during which such goods are permitted.

In case of *Kesoram Rayon v. CC* 1996 (86) ELT 464 (SC), it was held that goods which are not removed from the warehouse after the expiry of the period permitted for warehousing or extended, are deemed to be improperly removed in terms of section 72. The rate of duty applicable in such case will be the rate in force on the date of deemed removal, i.e. the date on which the permitted period or its permitted extension comes to an end. When the demand notice is issued is not relevant for determining the rate of duty. Section 15(1)(b) has no application in such cases where the goods are removed from warehouse beyond the permitted period of warehousing; it is applicable only to the cases where a bill of entry is presented for removal from warehouse under section 68, i.e. only when goods are cleared from the warehouse within the permitted period or its permitted extension.

In the given case, the date of deemed removal will be 15th September, being 5 months from 15th April. Accordingly, the applicable rate of duty will be 5%.

Hence, neither SuperArc Paper Mills Ltd. nor the proper officer is correct.

- 20.** No, the refund claim filed by Aurex Global Industries Ltd. is not maintainable in law. In the case of *Priya Blue Industries Limited v. CCus. (Preventive)* 2004 (172) ELT 145 (SC), Supreme Court ruled that unless an assessment order has been reviewed and/or modified in an appeal, that

assessment order stands. Duty is payable only as per that assessment order. A refund claim is not an appeal proceeding. Further, the officer considering the refund claim, cannot review the assessment order. Thus, refund claims based on challenge to an order of assessment are liable to be rejected.

In view of the above ruling of the Supreme Court, refund claims based on challenge to an order of assessment are liable to be rejected.

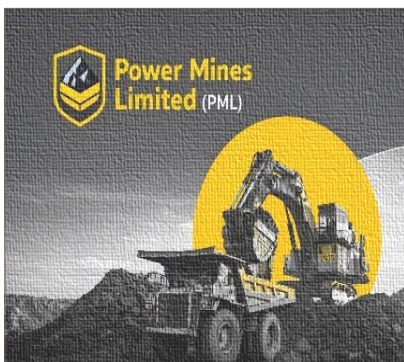
Appeal should be filed and not a refund claim when adjudication order has been issued or even when self-assessment is made. An adjudication order should be appealed against, if assessee is aggrieved by adjudication order. The order cannot be challenged by filing refund application.

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS



QUESTIONS

Case Study 1



Power Mines Limited (PML) and Deep Minerals Limited (DML) are companies engaged in the extraction of coal and other minerals from coal fields owned and operated independently by them. Each entity has its own ownership structure, management team, and operational processes, and undertakes mining activities such as exploration, extraction, processing, and sale of coal and minerals at its respective

sites. Both companies independently bear the operational, environmental, and regulatory risks associated with their mining operations. While they operate within the same industry and are subject to similar statutory and environmental regulations, there is no operational or financial interdependence between PML and DML in respect of their standalone mining activities.

In April 2025, PML and DML jointly acquired an underground coal mine named "Sigma", located in Korba, Chhattisgarh, in the ownership ratio of 55:45. Under this joint arrangement, both companies agreed to share services and related costs, and all key decisions relating to the Sigma coal mine require the unanimous consent of both parties. No separate legal entity was incorporated for this arrangement. Coal extraction at the Sigma mine is carried out using large-scale machinery capable of extracting up to 95% of the available coal reserves, with the remaining coal being irrecoverable and left in the mine until

decommissioning. As per applicable laws, the mine is required to be decommissioned at the end of its useful life. The Sigma coal mine is expected to contribute at least 25% of PML's projected revenue and is therefore considered strategically important for the company's long-term growth.

In July 2025, PML hired a few tipper lorries from M/s Heavy Movers for transporting coal and minerals from the mining pit head at the Sigma mine to the railway siding for a duration of three months. The vehicles were provided along with drivers; however, the fuel cost was to be borne by PML. When the bill was raised, M/s Heavy Movers treated the



transaction as an exempt supply, contending that it fell within the exemption entry relating to transportation of goods by road except by a Goods Transport Agency (GTA) under the relevant exemption notification. However, Mr. Shambu Singh, the accountant at PML, disagreed with this position. He was of the view that the arrangement constituted a taxable supply under the GST law and was not covered under the exemption claimed by the supplier. In order to ensure full legal compliance and avoid future disputes, he insisted that PML obtain a revised invoice from M/s Heavy Movers charging applicable GST.

Apart from the Sigma mine, PML also operates the Koyla coal mine in Chirmiri, Chhattisgarh, which it holds on lease from the State Government. The existing mining license for the Koyla mine is valid until November 2025, after which PML is required to obtain renewal approval to continue operations. At present, the Koyla coal mine contributes approximately 55% of PML's current revenue and is one of the company's key profit-generating mine. However, the license renewal process has been delayed, creating significant uncertainty regarding the continuity of operations. Mr. Ramdhar Paswan, the Chief Executive Officer of PML, is concerned that the prolonged delay in securing the license renewal is causing financial strain and adversely affecting the company's reputation. Further details are provided in **Annexure 1**.

Amid these developments, the senior management of DML reached out to Mr. Paswan to gain a clearer understanding of the situation. While DML expressed concern regarding the issues surrounding the Koyla mine, it indicated that it was not unduly worried about the joint arrangement for the Sigma mine, given the dual-party oversight mechanism in place and the continuous compliance and due process followed at the Sigma site. However, DML sought assurance that the issues relating to the Koyla mine would not escalate or result in reputational damage that could adversely impact its association with PML. DML's management also indicated that, in the event of any adverse reputational spillover, it might reconsider and even rescind the joint arrangement for the Sigma mine.

In the meantime, CA. Prakash Sarma of Sarma & Sarma Associates, the statutory auditor of PML for the financial year 2024-25, instructed his audit team to conduct a detailed examination of PML's financial records and internal control systems in light of the ongoing litigation relating to the Koyla coal mine. As part of this examination, the audit team carried out an extensive review of wage records, particularly in view of the labour unrest at the mine site. This review led to the identification of certain illegal practices, including the employment of children below the age of 14 years at the mine. These findings were formally communicated by CA. Prakash Sarma to PML's Legal and Compliance Officer, Ms. Nupur Taleti. For details refer **Annexure 2**. However, Ms. Taleti responded that the examination of labour law compliance fell outside the scope of a financial audit, a stance that was also adopted by Mr. Paswan and other members of senior management, without providing an adequate explanation to the auditor.

As rumors surrounding the High Court's impending judgment in the Koyla mine case spread in the market, investor sentiment became highly uncertain. While some market experts expected a favourable outcome for PML, others anticipated an adverse ruling. Given the significant contribution of the Koyla mine to PML's revenue, these uncertainties resulted in high volatility in the company's share price.

In order to protect his investment, Mr. Govind Kanti, an investor of PML, decided to hedge his exposure by purchasing both Call and Put Options for 100 shares of PML. Accordingly, on August 1, 2025, he purchased a three-month Call Option with a strike price of ₹ 84 at a premium of ₹ 4 per share, and a three-month Put Option with a strike price of ₹ 80 at a premium of ₹ 2 per share.

Ahead of the High Court's decision, investor concerns intensified, and on Friday, October 31, 2025, PML's share price fell sharply to ₹ 70, reflecting market expectations of an unfavorable ruling. Subsequently, on November 3, 2025, the High Court passed an adverse order against PML, holding the company responsible for extensive environmental damage arising from illegal mining activities.

Following this order, the State Government declined to renew the license to operate the Koyla coal mine, resulting in a significant loss of revenue for the company. Due to the resulting reputational damage, DML withdrew from the joint arrangement for the Sigma coal mine with effect from April 2026, leading to the suspension of operations at the Sigma site as well.

These developments pushed PML to the brink of bankruptcy, as both mine sites that had been major contributors to its revenue ceased operations. From August 2026, the company's operations were permanently discontinued. Consequently, the secured creditors of PML filed a winding-up petition before the High Court, and in December 2026, the High Court passed a winding-up order against the company. The workers of PML opposed the winding-up petition and also filed an appeal against the winding-up order, expressing uncertainty as to whether their appeal would be considered during the winding-up proceedings.

Annexure 1



City Times

License on Hold: How Legal and Labour Unrest Threaten PML's Koyla Mine

Raipur, 15th May 2025 – The Chhattisgarh State Government has put on hold the renewal of the mining licence for Power Mines Limited (PML) in respect of the “Koyla” coal mine. The existing licence remains valid until November 2025, after which PML will require fresh approval to continue operations at the mine. Environmental activists have alleged that PML has

been illegally carrying out mining activities beyond the area allotted by the State Government. It is further alleged that these activities have, over the years, caused irreversible environmental damage to the surrounding hills and forest areas.

Over the past month, the State High Court has been actively hearing the matter pursuant to a Public Interest Litigation (PIL) filed against the company. At the same time, the workers' union has protested against unsafe working conditions at the mine site. The mine shafts are old and reportedly prone to collapse, posing a serious risk of trapping workers underground. The workers' union is influential and has threatened strong action unless immediate remedial safety measures are implemented by the company.

As news of the litigation and the workers' agitation spread, public anger escalated, resulting in day-long rallies across the town, which forced schools and businesses to remain closed. The issue has attracted widespread attention, particularly because nearly 30% of the town's local population is employed by the company. Consequently, the matter is being closely monitored by the public, environmental groups, and the government.

According to a government source closely associated with the matter, the State Government is considering granting a fresh mining licence to one of PML's close competitors, instead of renewing the licence in favour of PML.

Annexure 2

Prakash Sarma/ Partner / Sarma & Sarma Associates

From: "Prakash Sarma" <psarma@ssa.com>
Sent: 25th May 2025 10:00
To: "Nupur Taleti" <ntaleti@pml.com>
Cc: "Ramdhar Paswan" <rpaswan@pml.com>
Subject: Critical Compliance Issue Identified During Audit Review
Attachments:

Dear Nupur,

We have examined the wage records of your company across all mining sites. In view of the ongoing legal proceedings relating to the Koyla coal mine, we carried out an extensive review of labour records at that site. During this review, it came to our attention that the company is employing children below the age of 14 years in its mining operations.

Upon inquiry with the site supervisor, Mr. Keshav Kumar, we were informed that these children are not deployed in underground mine shafts and are engaged only as casual labour for manual work above ground. Notwithstanding this explanation, our verification indicates that approximately 23% of the total workforce at the Koyla mine site comprises children under the age of 14 years. Similar violations have also been identified at other mining sites, particularly those where the company is the sole operator.

These practices constitute clear violations of applicable labour laws, under which the employment of child labour is a punishable offence. In our capacity as the Legal and Compliance function of PML, we consider it necessary to bring this matter to your immediate attention. You are requested to respond to this notification at the earliest, providing your explanation for the employment of child labour and addressing the potential legal and regulatory consequences that such violations may have on the company's business operations.

Regards,

P Sarma

CA. Prakash Sarma

Multiple Choice Questions

- 1.1 With reference to the issue regarding delay in renewing license for the Koyla coal mine, how should PML engage with DML?
- (a) Ignore them as they are not involved in the Koyla mine operations.
 - (b) Engage them with minimum effort as they are not involved in the Koyla mine operations
 - (c) Proactively engage with them to ensure they remain satisfied as they are potentially influential for PML
 - (d) Direct all legal notices to DML as they are in a joint arrangement for coal mines
- 1.2 How should PML engage with the worker's union regarding the issues at the Koyla coal mine site?
- (a) PML should manage the issue closely by engaging with the union leaders and involving them in any remedial measures.
 - (b) PML should engage with the worker's union only through their legal counsel as they are only marginal players in the business.
 - (c) PML should keep provide worker's union with safety assurance reports periodically that will keep them satisfied about the company's safety norms.
 - (d) PML should keep the worker's union informed about the high court decision as they are the affected party in the Public Interest Litigation that has been filed.
- 1.3 With reference to the issue regarding delay in renewing license for the Koyla coal mine, how would you classify equipment suppliers for the Koyla mine?
- (a) Influential players with high power low interest
 - (b) Marginal players with low power low interest
 - (c) Affected players with low power high interest
 - (d) Key players with high power high interest

- 1.4 Which of the following is true regarding CA. Prakash Sarma's audit issue about child labor employed in the Koyla mine site?
- (a) Nupur Taleti and the other members of the senior management are correct that this issue falls beyond the scope of CA. Prakash Sarma's financial audit.
 - (b) CA. Prakash Sarma can ignore this non-compliance as it relates to laws and regulations that do not have direct effect on the determination of material amounts and disclosures in the financial statements.
 - (c) CA. Prakash Sarma should undertake specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on financial statements. If he concludes that such non-compliance has a material effect on the financial statements and the same has not been adequately reflected in the financial statements by the company, he should express an adverse or qualified opinion on the financial statements.
 - (d) CA. Prakash Sarma should withdraw from the audit engagement altogether since the senior management is unwilling to provide appropriate information to explain this issue.
- 1.5 Determine Mr. Kanti's ending position at the end of 3 months on October 31, 2025.
- (a) Loss of ₹ 600
 - (b) Gain of ₹ 600
 - (c) Loss of ₹ 400
 - (d) Gain of ₹ 400
- 1.6 **Assertion (A):** The joint acquisition of the Sigma coal mine by PML (55%) and DML (45%), structured as a shared-control arrangement without creating a separate legal entity, represents a corporate-level growth initiative within the existing coal industry rather than merely a market penetration strategy.

Reason (R): The joint arrangement strengthens PML's position by potentially reducing competitive rivalry in the coal industry through improved economies of scale and cost efficiencies.

Options

- (a) Both A and R are true, and R is the correct explanation of A.
- (b) Both A and R are true, but R is not the correct explanation of A.
- (c) A is true, but R is false.
- (d) A is false, but R is true.

Descriptive Questions

- 1.7 (i) DISCUSS whether the joint arrangement between Power Mines Limited and Deep Minerals Limited is a joint operation or joint venture.
- (ii) DISCUSS the accounting for the unextracted coal and minerals as per Ind AS 16 and Ind AS 37 with respect to aforesaid "Sigma" coal mine.
- 1.8 EXAMINE under the provisions of the Companies Act, 2013 whether the appeal filed by the workers would succeed and their dues/interest will be protected in priority?
- 1.9 EXAMINE the correctness of Mr. Shambu Singh's assessment while recording the expense for rental for tipper lorries hired from M/S Heavy Movers.

Case Study 2

Crystal Clear Containers Limited (3CL) was incorporated in 1968 with a clear vision to manufacture high-quality consumer glassware that combines durability, safety, and refined design. Head-quartered in Bharuch, Gujarat, the company operates a fully integrated manufacturing facility equipped with modern technology to ensure superior product standards.

Over nearly five decades, 3CL has built a strong and trusted brand in the Indian market, particularly known for its technologically advanced, heat-resistant, and crack-proof glassware. Its consistent focus on innovation, quality control, and

customer satisfaction has enabled it to maintain a competitive edge in the industry.

In 1996, reflecting its sustained growth and commitment to corporate governance and transparency, 3CL was listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The listing marked a significant milestone in its corporate journey, strengthening its credibility and enhancing access to capital markets to support expansion, modernization, and long-term strategic growth.

The company manufactures a diverse portfolio of products including baking dishes, tea and coffee mugs, teapots, storage containers, heat-resistant cookware, and specialty serving glassware. Its products are widely appreciated for their superior strength, resistance to thermal shock, ergonomic designs, and safety features that enhance ease of handling. 3CL caters to both retail customers and institutional buyers such as hotels, restaurants, cafes, and organized retail chains. Continuous investment in advanced manufacturing processes, quality assurance systems, and product innovation has enabled the company to maintain its leadership position in the premium segment of the consumer glassware industry.

The consumer glassware industry is highly competitive and largely characterized by price sensitivity, the presence of numerous domestic and international players, and limited differentiation in basic product categories. In such a market structure, sellers often act as price takers, with market forces largely determining pricing levels. Despite these constraints, 3CL strives to differentiate itself through product quality, design innovation, brand positioning, operational efficiency, and supply chain optimization. The company focuses on cost management, technological upgradation, and customer-centric product development to sustain profitability and shareholder value.

The company's vision is to be a globally trusted leader in innovative and safe glassware solutions, delivering superior value to customers, shareholders, and society. Its mission is to manufacture high-quality, durable, and aesthetically designed glassware products using advanced technology and sustainable

practices, while ensuring customer satisfaction, operational excellence, and long-term value creation for all stakeholders.

3CL follows an annual budgeting process in September for the forthcoming financial year. The Budget Committee, chaired by the CEO, Mr. Pritam Kapoor, consists of Mr. Nagraj Naidu (Head – Production), Mrs. Anita Sharma (Head – Marketing), and Ms. Neha Shah (Head – Finance). On 5th September 2024, the Committee convened to deliberate on key aspects including projected sales volumes, cost structures, operational capacity utilization, and the sustainability of profit margins for the upcoming year.

Regarding one of its core product lines: baking glassware, 3CL operates in a highly competitive market where firms, including 3CL, are largely price takers. The prevailing average selling price was ₹ 500 per unit, with annual sales of approximately 80,000 units. The parameters per unit cost were as follows: each unit requires three hours of production time; direct material cost amounts to ₹ 150; direct labour cost amounts to ₹ 90; and variable overheads amount to ₹ 60. In addition, the annual fixed overheads attributable to this product line amounted to ₹20,00,000. These cost and pricing assumptions formed the basis for preparing the annual budget for F.Y. 2025–26. Detailed deliberations and viewpoints expressed by the Budget Committee during their 5th September 2024 meeting are provided in Annexure 1.

During the budgeting discussions, emphasis was placed on improving operational efficiency to protect margins in the face of price rigidity. To incentivize productivity improvements, employees in the production department were offered an enhanced labour rate along with a group bonus, payable upon achieving a targeted reduction in production time. The targeted reduction was successfully achieved during F.Y. 2025–26. Consequently, on 31st March 2026, a provision was created for the group bonus, since the obligation had crystallized upon achievement of the performance target. The company accordingly claimed a deduction for the bonus while computing its taxable income for F.Y. 2025–26.

However, the management chose to defer the actual payment of the bonus for six months to ensure that the reduced production time was sustainable and not

merely temporary. Upon confirmation that the improvement was permanent, the group bonus of ₹ 1,00,000 was paid in December 2026. During the assessment proceedings for A.Y. 2026–27, the Assessing Officer disallowed the deduction claimed for the bonus. Ms. Neha Shah, Head – Finance, contested the disallowance on the grounds that the liability had accrued in F.Y. 2025–26, since the performance condition had been fulfilled within that year.

Simultaneously, while undertaking the budgeting exercise, the management also revisited its long-term strategic roadmap. It observed that the domestic consumer glassware segment continued to face intense competition and sustained pressure on margins. Recognizing the structural maturity of this market, the Board, at its meeting held on 30th September 2024, resolved to adopt a two-pronged growth strategy. First, the Company decided to diversify into the manufacture of scientific equipment in order to strengthen and rebalance its product portfolio. Second, commencing from F.Y. 2025-26, it resolved to expand into international markets to widen its revenue base and mitigate risks arising from domestic competitive pressures.

The proposed product range includes laboratory glassware such as beakers, burettes, cones, condensers, distilling apparatus, flasks, funnels, slides, and various other specialized items. Although the manufacturing processes for consumer glassware and scientific equipment are not identical, 3CL's existing capabilities are expected to provide strategic support and reduce operational challenges in establishing this line of business. With increasing economic development and a growing emphasis on indigenous research and manufacturing, 3CL expects this market to witness sustained growth in the coming decades.

Following this strategic direction and after undertaking comprehensive market research and due diligence, the management decided to acquire Scientific Tools Limited (STL), a relatively new yet profitable company engaged in the bulk manufacturing of scientific equipment. STL's manufacturing unit is located approximately 8 kilometres from 3CL's facility in Bharuch, offering significant logistical and operational synergies.

Although STL had established operational infrastructure and a viable business model, it lacked the financial strength and scale necessary to pursue substantial expansion. Through this acquisition, 3CL would obtain immediate access to a fully functional manufacturing setup, thereby saving considerable time and capital expenditure that would otherwise be required to establish a new facility from scratch.

On 8th November 2024, 3CL made an offer to acquire STL at ₹85 per share. STL had 50 lakh issued and outstanding shares. During negotiations, however, STL's shareholders demanded a minimum consideration of ₹90 per share. The market price of STL's shares as of 6th November 2024 was ₹80 per share. The projected cash accruals of STL for the next three years were:

- 2025-26: ₹ 15 crores
- 2026-27: ₹ 18 crores
- 2027-28: ₹ 20 crores

3CL's weighted average cost of capital (WACC) is 10%. Miss Neha Shah, Head of Finance, was assigned the responsibility of valuing STL based on prevailing market expectations using appropriate valuation techniques and recommending an offer price that would be acceptable to both parties.

The acquisition was successfully completed in December 2024. Post-acquisition, 3CL refined its strategic positioning in the scientific equipment segment. Instead of continuing with bulk manufacturing alone, the company decided to focus on customized production tailored to the specific requirements of large laboratories, research institutions, and pharmaceutical companies. Given the specialized and specification-driven nature of such products, the management expected to command higher margins and strengthen its competitive positioning in this niche segment.

Subsequently, 3CL began receiving orders from multiple clients for customized equipment. One such order was placed by Lifesciences Research Private Limited (LRPL), Trivandrum, for the manufacture and supply of 150 highly specialized scientific apparatus. Since the equipment was intended for scientific

experimentation, the customer provided detailed technical drawings and specifications.

The order was finalized on 3rd January 2025. Immediately thereafter, production activities were commenced in accordance with the agreed technical specifications. As per the terms of the agreement, the entire order was required to be completed and delivered within a period of 12 months from the date of commencement.

Production progressed as planned, and approximately 50% of the ordered units were delivered by September 2025. However, in November 2025, LRPL requested a postponement of further deliveries citing liquidity constraints. The company further requested 3CL to suspend delivery of completed goods and discontinue production of the remaining items. In view of the deteriorating financial position of LRPL and continued non-payment of dues, 3CL initiated legal proceedings. A petition for winding up of LRPL was filed in late March 2026.

As on 31st March 2026, the exposure of 3CL relating to LRPL stood as follows:

- Scientific apparatus (Work-in-Progress): ₹ 1 crore
- Scientific apparatus (Finished Goods): ₹ 2 crores
- Trade Receivables from LRPL: ₹3 crores

As part of its long-term strategic initiative, during F.Y. 2025–26, 3CL also entered into an agreement with Gulf Glassware Inc. (GGI), a UAE-based company, for the supply of consumer glassware products. Under the agreement, 3CL is required to deliver the goods to Consumer Retail Limited (CRL), a company located in Karnataka, thereby integrating its domestic and international supply chain operations. GGI remits 40,000 UAE Dirham to 3CL in full settlement of this order.

CA. Nitin Joshi, the Internal Auditor, has joined 3CL to review internal controls across various departments. As a new joiner, he intends to focus on evaluating the internal check system within the company and has recorded certain observations, which are provided in **Annexure 2**.

Annexure 1

Excerpt of the budget meeting deliberations on 5th September 2024**Neha**

"The Finance team has prepared a draft budget on a product-wise basis to provide better visibility into the profitability of each product line. Since the selling price is market-driven and we operate in a price-taking environment, there is limited flexibility on pricing decisions. Further, the average cost structure has remained largely stable over the past year. Accordingly, the draft budget has been prepared using the current average selling price per unit and the prevailing average cost per unit. As a reference point, I had circulated the detailed workings for the baking glassware segment earlier."

**Pritam**

"I have reviewed the projections and I am concerned that the estimated profit remains broadly in line with last year's performance. While I agree that we have minimal control over the selling price, we should explore strategies to enhance profitability. One option is to increase sales volumes. Anita, I would like Marketing to intensify its efforts to expand market reach and improve turnover. At the same time, we must also think beyond the current year's budget and align our actions with our long-term growth objectives."

**Anita**

"Certainly. To achieve higher sales volumes for baking glassware, we would require an incremental marketing allocation of ₹1,00,000 for the coming year. With targeted promotional campaigns and stronger channel engagement, we estimate that sales volume can increase by approximately 10% over the current annual sales level of 80,000 units. Strengthening brand visibility now will also help us sustain demand over the long term."

**Pritam**

"That appears reasonable. However, increasing volume alone may not be sufficient if margins remain under pressure. We must ensure that growth translates into improved profitability. Can we simultaneously explore cost optimization initiatives?"

**Neha**

"With respect to the cost structure, fixed costs are largely committed in the short term and offer limited flexibility. Therefore, the scope for cost reduction primarily lies in variable components such as direct materials, direct labour, and variable overheads. Any efficiency gains achieved now will improve our contribution margins and enhance our long-term cost competitiveness."



Nagraj

"From a production standpoint, the design specifications cannot be altered without affecting quality and brand positioning; therefore, direct material costs are unlikely to change. However, we can reduce production time per unit through value analysis and process improvement initiatives aimed at eliminating non-value-adding activities. This would improve labour productivity and reduce variable overhead cost per unit. To ensure employee participation and sustained performance improvement, we propose introducing a performance-linked incentive scheme. For the baking glassware line, this would involve an annual group bonus of ₹ 1,00,000 and an additional ₹ 10 per hour increase in the labour rate."



Pritam

"That seems like a balanced approach. Alongside cost efficiency and market expansion, we should also consider strategic options for long-term growth. Given the competitive nature of the consumer glassware market, it may be prudent to explore related diversification opportunities where we can leverage our existing expertise in glass manufacturing. For instance, expanding into specialized or industrial glass products—such as laboratory glassware, heat-resistant technical components, or premium customized solutions—could open new revenue streams with potentially higher margins. Entering adjacent markets would allow us to reduce dependency on a single product category and strengthen our overall risk profile."



Neha

"That is a valid point. A related diversification strategy would enable us to capitalize on our technical know-how, trained workforce, and established supply chain, while spreading business risk across multiple segments. From a financial perspective, such expansion would need to be supported by careful capital budgeting, projected cash flow analysis, and risk assessment to ensure that it enhances shareholder value over the long term."



Pritam

"Agreed. For the immediate term, let us focus on improving profitability in the baking glassware segment by targeting a minimum 10% increase over current levels. Simultaneously, we will initiate a strategic evaluation of diversification opportunities to ensure sustainable long-term growth."



Neha

"I will proceed to analyse the financial impact of the proposed sales expansion and cost optimization measures using contribution and target costing principles. Additionally, I will prepare a preliminary financial framework to assess potential diversification strategies in alignment with our long-term growth objectives."

Annexure 2

Nitin Joshi's observation about the internal check system at 3CL

CA. Nitin Joshi/ Internal Auditor / Crystal Clear Containers Limited	
From:	"Nitin Joshi" <njoshi@3cl.com>
Sent:	13 th Feb 2026 10:00
To:	"Pritam Kapoor" <pkapoor@3cl.com>
Cc:	
Subject:	Observations regarding internal check system at 3CL
Attachments:	
Dear Pritam, I have been reviewing the internal check systems at 3CL with the objective of understanding the overall bookkeeping framework and the allocation of duties among staff members. An effective internal check system is one in which no single individual is responsible for executing and recording all aspects of a transaction. Proper segregation of duties and multiple levels of verification help in early detection of frauds and errors, thereby strengthening the integrity and reliability of the company's financial and operational processes. Since transactions are subjected to independent scrutiny and cross-verification, the risk of manipulation or oversight is significantly reduced. During my review, I have noted the following observations regarding the existing internal check system at 3CL: 1. The Head of Procurement, Mr. Amit Rathod, exercises complete control over the purchasing function, including placing purchase orders, receiving goods, and approving payments to suppliers. There is no independent review or supervisory oversight of his actions by another responsible official, resulting in a lack of segregation of duties within the procurement cycle. 2. Employees of the company have been performing the same roles for more than five years without any job rotation. In particular, the Finance Manager, Miss Neha Shah, has continued in the same position since joining the company, without any periodic rotation or reassignment of responsibilities. 3. The Store Manager, Mr. Vikas Gupta, who is responsible for physical custody of inventory, also maintains the inventory records. This concentration of custodial and recording functions in the same individual weakens the internal check mechanism and increases the risk of misstatement or misappropriation going undetected. Regards, <i>N. Joshi</i>	
CA. Nitin Joshi	

Multiple Choice Question

2.1 Analyzing the company's approach to cost reduction, which of the following can be the potential risks of such a course of action?

- (a) Focus on speed over quality potentially impacting the quality of the product negatively
- (b) Decrease in labour efficiency while making the product
- (c) Decrease in variable overhead efficiency while making the product
- (d) Increase in cost of production

2.2 3CL operates in two distinct business segments: (i) consumer glassware, characterized by standardized products and intense price competition, and (ii) customized scientific equipment, manufactured against client-specific technical specifications for research laboratories and pharmaceutical companies.

Given the structural differences in industry forces, pricing power, and value creation mechanisms across these segments, which of the following competitive strategy combinations would be most strategically coherent for 3CL?

- (a) Pursue an integrated cost leadership strategy across both divisions to exploit economies of scale and shared operational efficiencies.
- (b) Adopt a uniform differentiation strategy across both divisions by leveraging brand reputation and product quality to command premium pricing.
- (c) Implement cost leadership in the consumer glassware division while pursuing a focused differentiation strategy in the scientific equipment division.
- (d) Adopt a price sensitive strategy across both divisions by redefining industry boundaries and creating uncontested market space.

2.3 Determine whether the transaction with Gulf Glassware Inc. will qualify as export of goods under GST?

- (a) Yes, it is export of goods as the sale agreement is between 3CL and Gulf Glassware Inc.

- (b) Yes, it is export of goods as the transaction can be considered as deemed exports
- (c) Yes, it is export of goods as settlement for the transaction has been made by GGI in UAE Dirhams
- (d) No, it is not export of goods as the goods have been delivered to Consumer Retail Limited under the instructions of GGI.

2.4 For each of the observations mentioned in Annexure 2, match which principle of internal check system is violated.

Sr. No.	Observation regarding	Sr. No.	Principle violated
I	Functions of Amit Rathod	A	Staff duties should be rotated periodically
II	Functions of Neha Shah	B	Those with physical custody of assets should not have access to accounting records
III	Functions of Vikas Gupta	C	No single person should control any important aspect of business operations

Options

- (a) I-A, II-B, III-C
 - (b) I-C, II-A, III-B
 - (c) I-B, II-A, III-C
 - (d) I-C, II-B, III-A
- 2.5 The annual group bonus payable to the production team is deductible for income tax purpose only if which of the following conditions are satisfied:
- (i) The payment is made by 3CL to the employees on or before the end of the assessment year i.e., 31st March 2027
 - (ii) The payment is made by 3CL to the employees on or before the due date for furnishing the return of income under section 139(1)
 - (iii) The amount is not in the nature of profit or dividend distribution
 - (iv) The payment is actually made to the employees

Options

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

2.6 **Assertion (A):** 3CL is acquiring STL in order build business sustainability by pivoting from customer glassware that has reached maturity in its product life cycle to scientific equipment that is in its growth phase of life cycle.

Reason (R): Such horizontal integration will improve profitability and reduce industry rivalry for 3CL's existing business.

- (a) Both Assertion and Reason are true, and Reason is the correct explanation for the Assertion.
- (b) Both Assertion and Reason are true, but Reason is not the correct explanation for the Assertion.
- (c) Assertion is true, but Reason is false
- (d) Assertion is false, but Reason is true

Descriptive Questions

- 2.7 (1) Calculate the current profit of baked glassware product and the target profit to be achieved in F.Y. 2025-26.
- (2) Calculate the target production time per unit and the time to be reduced per unit.
- 2.8 Advise 3CL about the provision to be made for the receivable from Lifesciences Research Private Limited (LRPL) and the inventory held by 3CL in respect of this order in the financial statements of 2025-26.
- 2.9 Determine whether the valuation as demanded by shares holders of STL is justified. If not, based on the information given, what should the price range be that Neha should arrive at the valuation is based on prevailing market expectations.

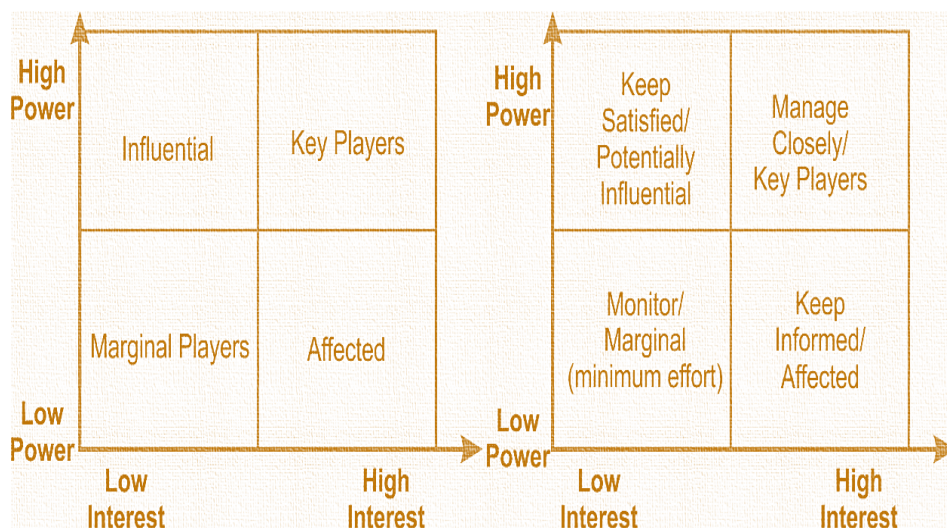
Note: Present Value Factors should be used up to three decimal places, and the final calculations should be rounded off to two decimal places.



SUGGESTED ANSWERS

Answers to Multiple Choice Questions

- 1.1 The correct answer is (c):** Proactively engage with them to ensure they remain satisfied as they are potentially influential for PML.



Mendelow's Matrix and Response to each class of stakeholders

Reason: DML is a potentially influential party that needs to be kept satisfied so that they are assured of the progress of the case and do not become Key Players with respect to the Koyla mine. It is given in the case study that the senior management of DML is not unduly worried about the issue regarding the Koyla mine because with respect to their joint arrangement for the Sigma mine sufficient compliance and due process through dual party oversight has been undertaken. Hence, they have "Low interest" with respect to the renewal of PML's license for the Koyla mine. At the same time, the senior management of DML has the power to rescind their arrangement with PML for the Sigma coal mine if there is any significant damage to reputation on account of the Koyla mine case.

Therefore, they have high power to affect PML's business operations even though they are not directly involved with the Koyla mine operations. This makes them a potentially influential party having "Low Interest but High Power". PML should engaged with them in a manner to keep them satisfied about the proceedings with respect to the Koyla coal mine case and not let the situation aggravate further. Interest can be "coal mine specific" but power can be "systemic" to the operations of PML.

- 1.2 The correct answer is (a):** PML should manage the issue closely by engaging with the union leaders and involving them in any remedial measures.

Reason: PML provides employment to 30% of the town's population. The worker's union are protesting against the unsafe working conditions in the mine shafts, making them players with high interest. Further they are threatening PML with drastic action if remedial safety measures are not immediately implemented. This makes them players with high power as such measures can disrupt operations at the mine site. Therefore, worker's union are key players, who need to be managed closely. PML should therefore engage with their representatives directly and involve them while taking remedial measures.

- 1.3 The correct answer is (b):** Marginal players with low power low interest.

Reason: They do not have the power to influence the outcome of the court's decision or that of the worker union's threats. There are many coal mining companies operating in this area. Therefore, they are not dependent only on PML for their business. Even if the license is granted to any of PML's rival company instead, they have the opportunity to provide their equipment to the new operator instead. Therefore, suppliers of such equipment have low interest in this issue. Therefore, they are marginal players with low power and low interest.

- 1.4 The correct answer is (c):** CA. Prakash Sarma should undertake specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on financial statements. If he concludes that such non-compliance has a material effect on the financial statements and the same has not been adequately reflected in the

financial statements by the company, he should express an adverse or qualified opinion on the financial statements.

Reason: As per SA 250 "Considerations of Laws and Regulations in an Audit of Financial Statements", the auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether caused by fraud or error. Therefore, the audit has to take into account the applicable legal and regulatory framework. For laws and regulations that do not have direct effect on the determination of the amounts and disclosures in the financial statements, but the compliance may be fundamental to the operating aspects of the business, the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on financial statements.

In the given case, CA. Prakash Sarma has questioned the management about 23% of the workforce at the Koyla coal mine site to be comprised of child labor. The senior management's explanation that this is outside the scope of his financial audit is unacceptable. Therefore, the auditor should ensure whether any penal provisions will be there for such non-compliance of such law and also whether the same has been disclosed by the company. If he concludes that such non-compliance has a material effect on the financial statements and the same has not been adequately reflected in the financial statements by the company, he should express an adverse or qualified opinion on the financial statements.

1.5 The correct answer is (d): Gain of ₹ 400

Reason: Cost of Call Option = ₹ 4 premium × 100 shares = ₹ 400

Cost of Put Option = ₹ 2 premium × 100 shares = ₹ 200

Total cost of hedging through Call and Put options = ₹ 400 + ₹ 200 = ₹ 600.

At the end of the 3 month period, the stock price falls to ₹ 70 per share. Since the market price is less than the strike price, Mr. Kanti will not exercise the Call Option.

Since the market price ₹ 70 per share is below the strike price of ₹ 80 per share for the put option, the option is "In the Money". This is a ₹ 10 gain per share on the Put Option, that is ₹ 1,000 for 100 shares.

Therefore, Mr. Kanti's ending position = gain on the Put Option less Cost of Hedging (Total Premium) = ₹ 1,000 - ₹ 600 = ₹ 400 gain.

1.6 The correct answer is (b): Both A and R are true, but R is not the correct explanation of A.

Reason: Both the Assertion and the Reason are true; however, the Reason is not the correct explanation of the Assertion.

The Assertion concerns the strategic classification of the Sigma joint acquisition.

It evaluates whether the move should be treated merely as market penetration or as a broader corporate-level growth initiative.

This classification depends on the nature of expansion, whether it is tactical (such as increasing sales through pricing or promotion) or structural (such as expanding productive assets and long-term capacity within the same industry).

Since the Sigma arrangement involves a joint acquisition of mining reserves with shared control and long-term capital commitment, it represents structural growth within the existing industry and therefore goes beyond simple market penetration.

The Reason, on the other hand, focuses on the competitive consequences of the joint arrangement under Porter's Five Forces.

It explains that improved economies of scale and cost efficiencies may reduce competitive rivalry in the coal industry. While this is a valid outcome of the acquisition, it does not determine how the strategy is classified. The classification is based on product- market dimensions and the nature of growth, not on its impact on industry rivalry.

Even if the joint venture did not significantly reduce competitive rivalry, it would still qualify as a structural corporate-level growth move rather than mere market penetration. Therefore, although both statements are true, the Reason does not logically explain the Assertion.

Answers to Descriptive Questions**1.7 (i) Determination of Joint Arrangement**

As per Ind AS 111 "Joint Arrangement", a joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The structure and form of the arrangement determines the nature of the relationship.

Joint Operation: Joint arrangement which is not structured through a separate vehicle is a joint operation. In such a case, the contractual agreement establishes the parties' rights and obligations.

Joint Venture: A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint operator accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant Ind AS.

The arrangement between Power Mines Limited (PML) and Deep Minerals Limited (DML) is a joint operation as no separate vehicle is formed and the companies have agreed to share services and costs with decisions relating Sigma coal mine requiring unanimous agreement of both parties.

Both companies should recognize their share of the asset as Property, Plant and Equipment.

(ii) Accounting for unextracted coal and minerals

As per para 16 of Ind AS 16 "Plant, Property and Equipment", the cost of an item of property, plant and equipment comprises the initial estimate of the cost of dismantling and removing the item and restoring the site on which it is located.

Further, para 45 of Ind AS 37 "Provisions, Contingent Liabilities and Contingent Assets", provides that where the effect of time value of money is material, the amount of provision shall be the present value of the expenditures expected to be required to settle the obligation.

Thus, costs incurred by an entity in respect of obligations for dismantling, removing and restoring the site on which an item of property, plant and equipment is situated are recognized and measured in accordance with Ind AS 16 and Ind AS 37.

Each of the entities in the joint arrangement should recognize their respective share of the cost of decommissioning of the underground storage facility.

However, as per para 29 of Ind AS 37 where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is to be treated as contingent liability.

Accordingly, each of the entities in the joint arrangement should disclose the share of the cost of decommissioning of the underground facility, to be borne by the other joint arrangement entity, as a contingent liability.

As per Ind AS 16 Property, Plant and Equipment are tangible items that:

- (a) are held for use for production or supply of goods or services for rental to others, or for administrative purposes and
- (b) are expected to be used more than one period.

Thus, both entities should classify and account for their share of irrecoverable coal and minerals as property, plant and equipment, as the irrecoverable coal and minerals is necessary for the storage facility to perform its function. Therefore, the irrecoverable coal and minerals being part of the storage facility, should be capitalized as a component of the storage facility asset and should be depreciated to its residual value over the life of the storage facility.

- 1.8** According to Section 279 of the Companies Act, 2013, when a winding up order has been passed or a provisional liquidator has been appointed, no suit or other legal proceeding shall be commenced, or if pending at the date of the winding up order, shall be proceeded with, by or against the company, except with the leave of the Tribunal and subject to such terms as the Tribunal may impose.

It is further provided that any application to the Tribunal seeking leave under this section shall be disposed of by the Tribunal within sixty days.

However, the above provision shall not apply to any proceeding pending in appeal before the Supreme Court or a High Court.

According to Section 325/326/327 of the Companies Act, 2013, in the winding up of a company under this Act, the workmen's dues shall be paid in priority to all other debts ranking *pari passu* with secured creditors.

As per the facts of the case, the High Court has already passed a winding up order of the company. Hence, the workmen can appeal against the winding up order but only with the leave of the Tribunal and subject to such terms as the Tribunal may impose. Further, the dues/ interest of the workmen will be protected in priority as workmen's dues shall be paid in priority to all other debts ranking *pari passu* with secured creditors.

- 1.9** The issue which arose for consideration here was whether transport of minerals within a mining area within the Sigma mine's mining pit head to railway siding, by vehicles deployed with driver for a period of 3 months would be covered under Entry 18 of *Exemption Notification No. 12/2017 CT(R) dated 28.06.2017* which exempts transport of goods by road (except by a GTA). This is the contention of M/s Heavy Movers.

Usually in such cases vehicles such as tippers, dumpers, loaders, trucks etc., are given on hire to the mining lease operator (PML in this case). Expenses for fuel are generally borne by the recipient of service (PML in this case). The vehicles with drivers are at the disposal of the mining lease operator for transport of minerals within the mine area (mining pit to railway siding, beneficiation plant etc.) as per his requirement during the period of contract.

Such services are nothing but “rental services of transport vehicles with operator”. The person who takes the vehicle on rent (PML in this case) defines how and when the vehicles will be operated, determines schedules, routes and other operational considerations.

The person who gives the vehicles on rent with operator (M/s Heavy Movers) cannot be said to be supplying the service by way of transport of goods.

Accordingly, it is clarified that such renting of trucks and other freight vehicles with driver for a period of time is a service of renting transport vehicles with operator and not service of transportation of goods by road. Consequently, it is not eligible for exemption under Entry 18¹.

In conclusion, Shambu Singh is correct in this opinion that the service provided by M/S Heavy Movers is taxable, subject to GST. M/s Heavy Movers should therefore revise its invoice before it can be processed by Shambu Singh for PML’s accounting records.

Answers to the Multiple Choice Questions

2.1 The correct answer is (a): Focus on speed over quality potentially impacting the quality of the product

Reason: 3CL’s approach to cost reduction focuses on reducing the production time required per unit. This has a direct impact on labour and variable overhead costs. Since the design cannot be changed there is no focus on direct material. Therefore, the potential for improvement in the quality of the product is minimal. Rather, sole focus on reduction in production time can increase manufacturing defects impacting quality negatively.

2.2 The correct Answer is (c): Implement cost leadership in the consumer glassware division while pursuing a focused differentiation strategy in the scientific equipment division.

¹ Circular No. 177/09/2022 GST dated 03.08.2022

Reason: The most appropriate strategy for 3CL is option (c) because the two business segments operate under fundamentally different competitive conditions. The consumer glassware segment functions in a highly competitive and price-sensitive market where products are largely standardized and the company has limited control over selling prices, effectively making it a price taker. In such an environment, profitability can only be sustained through operational efficiency, cost control, and process optimization, thereby necessitating a cost leadership strategy. In contrast, the scientific equipment segment involves customized manufacturing based on client-specific technical specifications for research institutions and pharmaceutical companies. These products are specialized, less price-sensitive, and capable of commanding higher margins due to their technical complexity and tailored nature. Accordingly, this segment is best aligned with a product differentiation strategy, where competitive advantage arises from customization capability, quality, and technical expertise rather than cost minimization.

- 2.3 The correct answer is (d):** No, it is not export of goods as the goods have been delivered to Consumer Retail Limited under the instructions of GGI.

Reason: As per the definition of export of goods provided under section 2(5), export of goods means taking goods out of India to a place outside India.

In the given case, 3CL has delivered the goods, albeit under the instruction of GGI, to Consumer Retail Limited (CRL) in Karnataka (i.e. delivery is within India). Therefore, goods have not been taken out of India to a place outside India. Therefore, this transaction cannot be treated as export of goods.

- 2.4 The correct answer is (b):** I-C, II-A, III-B

Reason: I – Observation regarding functions of Amit Rathod violates principle of No single person should control any important aspect of business operations.

Amit Rathod has complete control over purchasing, receiving goods, and approving payments to suppliers. His actions are not reviewed by any

other person in the company. This gives him complete control over the entire procurement process without oversight.

II – Observation regarding functions of Neha Shah violates the principle of Staff duties should be rotated periodically.

Staff rotation should happen periodically to prevent any person from performing the same function for too long.

III – Observation regarding functions of Vikas Gupta violates the principle of Those with physical custody of assets should not have access to accounting records.

Vikas manages the inventory records as well as has custody over the inventory. This weakens the safeguard over inventory.

2.5 The correct answer is (c): (ii) (iii) and (iv)

Reason: Statement (ii) – As per Section 43B, bonus or commission to employees for services rendered have to be paid by the assessee on or before the due date for furnishing the return of income under section 139(1).

Statement (iv) – As per Section 43B the deduction is available only on actual payment basis.

Statement (iii) - As per Section 36(1)(ii) the bonus shall not be payable to the employees as profits or dividends.

2.6 The correct answer is (c): Assertion is true, but Reason is false.

Reason: Assertion is true: Consumer glassware is yielding shrinking margins in an intensely competitive market, indicating that it has reached the maturity stage of its product life cycle. In contrast, the scientific equipment segment offers significant growth potential, particularly due to increasing economic development and greater emphasis on research and development activities. The presence of growth opportunities and expanding demand suggests that scientific equipment is in the growth phase of its product life cycle. Therefore, the acquisition aligns with a strategic shift toward long-term business sustainability.

Reason is false: The acquisition of STL by 3CL cannot be classified as horizontal integration, as the products, although somewhat related, do not belong to the same industry or market segment. Horizontal

integration refers to the acquisition of a competitor operating within the same line of business to increase market share and reduce industry rivalry. While the acquisition may aim to improve profitability—since customized scientific equipment is expected to generate higher margins compared to standardized, bulk-manufactured consumer glassware or standard scientific equipment—it does not reduce industry rivalry in 3CL's existing consumer glassware business. The two product lines operate in distinct markets; hence, rivalry in the existing business remains unaffected.

2.7 (1) Profit of baking glassware in F.Y. 2024-25

Particulars	Amount (₹)
Selling Price per unit	500
Less:	
Direct Material cost per unit	150
Direct Labour cost per unit	90
Variable Overhead cost per unit	60
Contribution per unit	200
Current Sales Quantity (units)	80,000 units
Total Contribution	1,60,00,000
Less: Fixed Cost	20,00,000
Current Profit	1,40,00,000

Therefore, the profit in F.Y. 2024-25 for baking glassware is ₹ 1.4 crores. Pritam wants 10% in profits in the forthcoming year. Therefore, the target profit from this product line for F.Y. 2025-26 is ₹ 1.54 crores.

(2) Target production time per unit and the time to be reduced per unit

The current production time is 3 hours per unit. Even though the selling price cannot be increased, Pritam wants the profits from baked glassware to increase by 10%, that is ₹ 1.54 crores as explained above. Therefore, as suggested by Nagraj, value analysis

is used to eliminate waste and streamline activities so that it can yield cost savings. To work back on what the target production time per unit should be, we need to know what is the target cost to achieve in order to yield a profit of ₹ 1.54 crores in F.Y. 2025-26.

The target sales for next year is 88,000 units, up 10% from the current levels. Current selling price of ₹500 per unit will remain the same. Since no redesign is being made, the direct material cost also remains the same. Therefore, reduction can be achieved only through reduction of direct labour and variable overhead costs. These are driven by production hours required per unit.

Below is the working for the target cost to achieve next year:

Particulars	Amount (₹)
Target sales value (88,000 units × ₹ 500 p.u.)	4,40,00,000
Less: Target profit needed	1,54,00,000
Less: Direct Material cost (88,000 units × ₹ 150 p.u.)	1,32,00,000
Less: Fixed cost	20,00,000
Less: Proposed increase in marketing and advertising	1,00,000
Less: Proposed group bonus	1,00,000
Target Cost (Variable Overhead and Direct Labor) for the new sales target	1,32,00,000

Given the target cost for direct labour and variable overhead, we need to consider the direct labour rate per hour and the variable overhead rate per hour. Currently each unit requires 3 hours of production for which direct labour is ₹ 90 per unit and variable overhead is ₹ 60 per unit.

Therefore, the currently direct labour rate ₹ 30 per hour while variable overhead rate is ₹ 20 per hour.

Revised direct labour rate per hour, increased by ₹ 10 per hour = ₹ 40 per hour while the variable overhead rate remains at ₹ 20 per hour. Therefore, the target cost for direct labour and variable overheads is ₹ 60 per hour.

Target production cost per unit (DL+VOH)

= ₹ 1,32,00,000/88,000 units = ₹ 150 per unit

Target production time required per unit

= Target production cost per unit (DL+VOH)/ target cost for DL and VOH = ₹ 150 per unit / ₹ 60 per hour= 2.50 hours production hours per unit

Therefore, in order to achieve its target cost the company should reduce the production time per unit from 3 hours to 2.50 hours, a 0.50 hour reduction.

- 2.8** In January 2025, 3CL commenced manufacturing specialized scientific apparatus pursuant to a confirmed order received from **Lifesciences Research Private Limited (LRPL)**. The equipment was customized in accordance with specific drawings and technical designs provided by the customer. By September 2025, approximately 50% of the apparatus had been completed and delivered.

However, in November 2025, LRPL requested a postponement of the delivery schedule due to liquidity constraints. The customer further requested 3CL to withhold delivery of finished goods and discontinue production of the remaining units. Subsequently, during F.Y. 2025–26, 3CL filed a petition for winding up of LRPL.

As at 31st March 2026, the balances relating to this contract were as follows:

- Trade receivables from LRPL: ₹ 3 crores
- Inventory:
 - Finished goods: ₹ 2 crores
 - Work-in-progress (WIP): ₹ 1 crore

As per Ind AS 2, inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or

- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services

Accordingly, the scientific apparatus (both finished goods and WIP) held by 3CL as on 31st March 2026 qualify as inventory.

Ind AS 2 further requires inventories to be measured at the lower of cost and net realisable value (NRV).

Since LRPL has postponed the delivery schedule due to a liquidity crunch, the entire cost incurred on the scientific apparatus intended for supply has been classified as inventory. The scientific apparatus remains in the possession of the company and may potentially be sold in the market. Accordingly, the company should value such inventory in accordance with the principles laid down in Ind AS 2, i.e., at the lower of cost or net realisable value (NRV).

Although the goods were produced as per the customer's specifications, the company should determine the NRV of these goods in the market and value them accordingly. Any decline in the value of such scientific apparatus should be appropriately recognised in the books of account.

In the absence of specific information regarding the NRV of the work-in-progress and finished goods in the question, and assuming that cost is lower than NRV, the company shall value its inventory at ₹ 3 crores (i.e., scientific apparatus – WIP ₹ 1 crore plus scientific apparatus – finished goods ₹ 2 crores) in accordance with Ind AS 2.

Alternatively, if it is assumed that no buyer exists for such highly customized scientific apparatus, the NRV would be Nil. In that case, the entire carrying amount of the finished goods and WIP would need to be written off in the books.

With regard to the trade receivables balance of ₹ 3 crores, since the company has filed a petition for winding up against the customer during F.Y. 2025–26, it is probable that the amount may not be recoverable. Accordingly, a provision for doubtful debts amounting to ₹ 3 crores should be recognised in the books against the debtor's amount.

- 2.9** The shareholders of STL are demanding ₹ 90 per share as part of the acquisition negotiations. Given that STL has 50 lakh shares outstanding,

the value that is being asked for by their shareholders = ₹ 90 × 50 lakh shares = ₹ 45 crores.

Neha has been asked to determine the valuation of STL based on prevailing current market expectations. She can arrive at valuations based on market price and discounted cash flows to determine a reasonable price range that can be offered.

Valuation of STL based on Market Price:

Market price of STL on November 6, 2024 = ₹ 80 per share.

Number of shares outstanding = 50 lakh shares

Therefore, market value of STL as on November 6, 2024 = 50 lakh shares × ₹ 80 per share = ₹ 40 crores

Valuation of STL based on discounted cash flow:

Present value of cash flows = ₹ 15 crores × 0.909 + ₹ 18 crores × 0.826 + ₹ 20 crores × 0.751

= ₹ 13.64 crores + ₹ 14.87 crores + ₹ 15.02 crores = ₹ 43.53 crores.

Value per share based on discounted cash flow = ₹ 43.53 crores / 50 lakh shares = ₹ 87.06 per share

Therefore, the price demanded by STL's shareholders of ₹ 90 per share is not justified. Neha can advise the management of 3CL that the negotiations can be done between the price range of prevailing market price ₹ 80 per share and ₹ 87.08 arrived based on future cash flows. These will reflect a valuation based on current market expectations. A price negotiated within this range would be reasonable for 3CL, the acquiring company, as well as for STL's shareholders. 3CL's offer to acquire the shares at ₹ 85 per share falls within this range.

**Applicability of Standards / Guidance Notes / Legislative
Amendments etc. for May, 2026 Examination
Final Course**

Paper 4: Direct Tax Laws & International Taxation

The provisions of direct tax laws, as amended by **the Finance Act, 2025** including significant notifications, circulars issued and legislative amendments made up to **31.10.2025**, are applicable for May, 2026 examination. The relevant assessment year is **A.Y.2026-27**.

The September 2025 edition of the Study Material for Final Paper 4 based on the provisions of direct tax laws as amended by the Finance Act, 2025 and Notifications and Circulars issued upto 31st July, 2025, is relevant for May, 2026 Examination. The said Study Material comprises of Modules 1 to 4. Considering that no significant Notifications and Circulars are issued between 1st August 2025 and 31st October, 2025, there is no statutory update for May 2026 examination. The Study Material has to be read along with the **Judicial Update for May, 2026 examination**.

Note - As regards certain topics on International Taxation, namely, Overview of Model Tax Conventions, Application & Interpretation of Tax Treaties, Fundamentals of Base Erosion and Profit Shifting and Latest Developments in International Taxation, the specific content as covered in the Study Material would be relevant for May, 2026 Examination.

Final Paper 5: Indirect Tax Laws

The following are applicable for May 2026 examination:

- (i) The provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance Act, 2025 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2025.
- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance Act, 2025 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2025.

Note - The amendments made by the Annual Union Finance Acts in the Indirect Tax Laws are made effective from a date notified subsequently. Thus, only those amendments made by the relevant Finance Acts which have become effective till 31.10.2025 are applicable for May 2026 examination.

Further, it may be noted that amendments made by the Finance Act, 2023 in sections 9, 9A and 9C of the Customs Tariff Act, 1975 and in section 65 of the Customs Act, 1962 and insertion of new section 65A in the Customs Act, 1962 have not become effective till 31.10.2025 and thus, are not applicable for May 2026 examination. Also, the amendments made by the Finance (No. 2) Act, 2019 in sections 2(4), 95, 102, 103, 104, 105 and 106 of the CGST Act, 2017 and the insertion of new sections 101A, 101B & 101C in the CGST Act, 2017, have not become effective till 31.10.2025 and thus, are not applicable for May 2026 examination.

The Study Guidelines given below specify the exclusions from the syllabus for May 2026 examination.

List of topic-wise exclusions from the syllabus		
(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions (Provisions which are excluded from the corresponding topic of the syllabus)
Part-I: Goods and Services Tax		
(i)	Case studies based on following: Levy and collection of CGST and IGST – Application of CGST/ IGST law; Concept of supply, inter-State supply, intra-State supply, supplies in territorial waters; Charge of tax including reverse	(i) Rate of tax prescribed for supply of goods * (ii) Rate of tax prescribed for supply of services * (iii) Exemptions for supply of goods (iv) Value of supply in cases where Kerala Flood Cess is applicable. (v) Manner of determination of input tax credit in respect of

	charge; Exemption from tax; Place of supply; Time of Supply; Value of supply; Input tax credit; Computation of GST liability	inputs, input services and capital goods and reversal thereof in respect of real estate projects (vi) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
(xii)	Other provisions	Transitional Provisions

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

Note: In the above table, in respect of the topics of the syllabus specified in column (2) the related exclusion is given in column (3). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded.

It is important to note that the entire content included in the September 2025 edition of Study Material (*except where it is expressly mentioned that the content is not relevant for the examination*) and the Statutory Update for May 2026 examination shall ALONE be relevant for the said examination. The amendments in the GST law as well as the Customs & FTP, made after the issuance of the Study Material - to the extent covered in the Statutory Update for May 2026 examination shall only be relevant for the said examination.