# Final Course

## Paper 1 Financial Reporting

**1. Whether listed companies with net worth below Rs. 250 crore is required to follow IND AS?**

**Ans** Yes, from 2017-2018, all listed companies have to mandatorily follow Ind AS for preparation of their FS

**2. Are there no net worth threshold for bank and insurance companies for application of Ind AS?**

**Ans** No, there is no net worth criteria for Banking companies and Insurance companies as per the roadmap issued earlier. However, as per the latest notification, applicability of Ind AS for Banks, has been deferred till further announcement

**3. Whether only listed company has to prepare Ind AS based financial statements or even private limited or closely held limited company are also required to prepare the Ind AS financial statements?**

**Ans** As per the roadmap issued by MCA for corporate entities, now every listed company has to mandatorily prepare their financial statements based on Ind AS. However, all private unlisted companies can implement Ind AS on voluntary basis. In case a private unlisted companies have net worth of 250 crore or more, then they have to mandatorily prepare their financial statements as per Ind AS

**4. Elaborate "Other Comprehensive Income" and what items shall be placed in it. Also state which items will be placed in OCI?**

**Ans** The Standard requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income.

*The other comprehensive income section shall present line items for amounts for the period of:*

*(a) items of other comprehensive income (excluding amounts in paragraph (b)), classified by nature and grouped into those that, in accordance with other Ind AS:*

*(i) will not be reclassified subsequently to profit or loss; and*

*(ii) will be reclassified subsequently to profit or loss when specific conditions are met.*

*(b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that in accordance with other Ind AS:*

*(i) will not be reclassified subsequently to profit or loss; and*

*(ii) will be reclassified subsequently to profit or loss when specific conditions are met.*

**5. Give examples of reclassification of other comprehensive income.**

**Ans** Other Comprehensive Income shall be classified into-

*(A) Items that will not be reclassified to profit or loss*

(i) Changes in revaluation surplus;

(ii) Re-measurements of the defined benefit plans;

(iii) Equity Instruments through Other Comprehensive Income;

(iv) Fair value changes relating to own credit risk of financial liabilities designated at fair value through profit or loss;

(v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and

(v) Share of Other Comprehensive Income in Associates and Joint Ventures, to the extent not to be classified into profit or loss; and

(vi) Others (specify nature).

*(B) Items that will be reclassified to profit or loss;*

(i) Exchange differences in translating the financial statements of a foreign operation;

(ii) Debt instruments through Other Comprehensive Income;

(iii) The effective portion of gains and loss on hedging instruments in a cash flow hedge;

(iv) Share of other comprehensive income in Associates and Joint Ventures, to the extent to be classified into profit or loss; and

(v) Others (specify nature)

**6. What are Exceptional items and why they are required to be disclosed in the financial statements?**

**Ans** Exceptional items have not been defined in Indian Accounting Standards (Ind AS. However, paragraph 97 of Ind AS 1 requires that when items of income or expense are material, an entity shall disclose their nature and amount separately.

As per Ind AS 1, materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

As per paragraph 12 of existing Accounting Standard (AS) 5, Net profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Generally, items of income or expense fulfilling the above mentioned criteria are classified as exceptional items and are disclosed separately.

From the above, it appears that all material items are not exceptional items.

In other words, exceptional items are those items which meet the test of 'materiality' (size and nature) and the test of 'incidence'.

Following are some examples which may give rise to a separate disclosure of items as an 'exceptional item' in financial statements if they meet the test of 'materiality' and 'incidence':

(a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

**7. Can Statement of cash flows be prepared in condensed form while preparing the interim financial report? What shall be given in the condensed form of financial statements?**

**Ans** According to paragraph 1 of Ind AS 7, statement of cash flows forms an integral part of financial statements for each period for which financial statements are presented. According to Ind AS 1, Presentation of Financial Statements, complete set of financial statements include among other statements, a statement of cash flows for the period.

From the above, it is clear that statement of cash flows is an integral part of financial statements and the same should be prepared for each period for which financial statements are presented i.e., annual period as well as interim reporting period.

In this regard, it may be noted that Ind AS 34, Interim Financial Reporting, states that interim financial report shall comply with all of the requirements of Indian Accounting Standards. Ind AS 34 provides that interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period. Accordingly, statement of cash flows can be presented in complete or condensed form.

**8. Cash is defined as cash on hand and demand deposits. What is the meaning of the term 'demand deposit'? State the treatment of demand deposits?**

**Ans** Ind AS 7 does not define the term 'demand deposit'. In commercial parlance, demand deposit refers to a deposit in an account held at a bank/financial institution where the amount deposited can be withdrawn at any time by the depositor without any penalty. Examples of such deposit accounts are, current accounts, savings accounts etc. The purpose of making a demand deposit is to meet the short-term fund requirements. Such deposits have same level of liquidity as cash. Accordingly, demand deposits are included in cash.

**9. The company holds a flexi deposit linked current account with Suvarna Bank. Cheques are issued from the current account as and when funds are required, and the flexi deposits are encashed and transferred to the current account. The company has issued certain cheques from its current account which were not presented for payment by 31 March 2018. The management of the company wants to present the bank overdraft under current liabilities in the balance sheet. Is the presentation correct? If not, how should it be disclosed as per Schedule III of the Companies Act, 2013?**

**Ans** No. The cheques issued should be set-off against the current account balance and net balance should be shown under 'Cash and cash equivalents'.

As per Schedule III of the Companies Act, 2013 and the facts given in the question, it is evident that in substance the position is that the composite bank balance including the balances in the deposit accounts are positive, even though physical set-off has not been made as on balance sheet date. Furthermore, the bank has the right to set-off the deposits against the cheques issued and hence it would be more informative and useful to the readers of the financial statements to disclose the credit balance as a set-off from the deposit accounts.

**10. What is restricted cash and bank balances and do they qualify as cash and cash equivalent in the statement of cash flows?**

**Ans** Cash and bank balances that are restricted for use do not satisfy the definitions of either cash or cash equivalents. Therefore, the treatment by the entity of not considering the cash and bank balance that are restricted for use as part of cash and cash equivalent while preparing cash flow statement is proper.

Further, para 45 states that an enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it.

From the above paras, it is understood that restricted cash and bank balance do not form part of cash equivalent as they are not readily convertible. However, they are cash as per AS 3 since they are with the enterprise on hand.

According, the entity should disclose the amount of cash and cash equivalent balances that are restricted for use. The company is required to disclose without including the same in cash flow statement.

**11. Are any non-adjusting events disclosed in the Financial statements?**

**Ans** As per AS 4, *Contingencies and Events Occurring After the Balance Sheet Date*, significant non-adjusting events may require a disclosure in the report of the approving authority to enable users of financial statement to make proper evaluations and decisions. However, Paragraph 21 of Ind AS 10 requires that if non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

Therefore, under Ind AS such material non-adjusting events are required to be disclosed in the financial statements itself and not only in the report of approving authority, i.e., Directors' Report.

**12. What is the meaning of the word "probable" in the context of Ind AS 37?**

**Ans** For the purpose of Ind AS 37, the word 'probable' is defined as 'more likely than not'. 'More likely than not' means that the probability that the event will occur is greater than the probability that it will not occur. A percentage of over 50% chance that the event will occur can be used for this purpose.

**13. When a provision is created, where the corresponding debit should be taken to?**

**Ans** Ind AS 37 does not specifically addresses where the debit corresponding to a provision should be taken to. Therefore, treatment in this regard would be determined in accordance with other relevant Ind AS. Although in most of the cases the debit will be taken to the Statement of Profit and Loss but sometimes recognition of a provision could result in the creation of an asset also. For example, decommissioning obligations relating to creation of a fixed asset that are provided for in the books at the time when the asset comes into existence are normally capitalised and depreciated over the useful life of the asset.

**14. How the best estimate of the amount of provision is determined? Explain with example.**

**Ans** In accordance with paragraphs 39 and 40 of Ind AS 37, an entity may generally use the following techniques to make the best estimate of the amount of provision:

1. Weighted average of all possible outcomes by their associated probabilities, known as 'expected value' or

2. The single most likely outcome.

Example 1: Weighted average of all possible outcomes

An entity is a retail chain distributing shoes. It faces 200 legal claims filed by its distributors. Each with a 30 per cent likelihood of success with no cost and a 70 per cent likelihood of failure with the cost of each claim to be Rs. 20,000.

Using expected value method, the best estimate of the provision should be measured using the following formula:

70% × 200 claims × Rs. 20,000 per claim = Rs 28,00,000.

Example 2: Single most likely outcome

An entity has a legal claim for damages filed by its customer of Rs. 2.50 million. There is a 40% chance that the entity will win the case and no cost will be involved. However, there is a 60% chance that decision will not be in the favour of the entity and it will have to pay for the damages.

In this case the outcome will either be zero cost or a cost of Rs. 2.5 million. As per paragraph 40 of Ind AS 37 "where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability."

In this example, the provision should be measured at the most likely outcome which is Rs. 2.5 million.

When the provision relates to a single event, or a small number of events, expected value is not a valid technique.

**15. When and how an entity should recognise the reimbursement from third party of some or all of the expenditure required to settle a provision?**

**Ans** As per paragraph 53 of Ind AS 37, a reimbursement from a third party, for full or part of the expenditure required to settle a provision, should be recognised only when it is virtually certain that it will be received by the entity if the entity settles the obligation.

How the entity should recognise the reimbursement will be determined by whether the entity has the primary liability to settle the obligation.

Where the entity is liable to pay the whole amount, even in case of failure by the third party to pay for the amount, provision is recognised for full amount and a separate asset is recognised for the expected reimbursement subject to meeting the virtual certainty criterion. Asset must not exceed the provision amount.

In the Statement of Profit and Loss, the expense for provision may be presented net of the amount of expected reimbursement.

Where the entity is not liable to pay the cost in case of failure to pay by the third party, no provision is required to be made by the entity.

**16. Will the accounting for a recognised provision undergo a change once the amount payable under the obligation becomes certain?**

**Ans** Ind AS 37 defines a provision as a liability of uncertain timing on amount, accordingly, once the amount of the obligation is crystallised and there is no uncertainty associated with an obligation, the liability is no longer a provision. The same should be reclassified as an element within liabilities. For example, customer X has made a claim of Rs. 2 million for liquidated damages, the entity is disputing the amount of claim. Due to the uncertainty involved in the amount

payable, the entity recognises this as a provision. After negotiation with the customer, the amount is agreed at Rs. 1.5 million. As there is no uncertainty involved relating to the amount payable, it no longer meets the definition of provision and should be reclassified to an appropriate category within liabilities.

**17. Entity XYZ entered into a contract to supply 1000 television sets for Rs 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to Rs. 2.5 million. The penalty for non- performance of the contract is expected to be Rs. 0.25 million. Is the contract onerous and provision in this regard required?**

**Ans** Ind AS 37 defines an onerous contract as "a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it". Paragraph 68 of Ind AS 37 states that "the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it". In the instant case, cost of fulfilling the contract is Rs. 0.5 million and cost of exiting from the contract by paying penalty is Rs. 0.25 million. In accordance with the above reproduced paragraph, it is an onerous contract as cost of meeting the contract exceeds the economic benefits. Therefore, the provision should be recognised at the best estimate of the unavoidable cost, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it, i.e., at Rs. 0.25 million (lower of Rs. 0.25 million and Rs. 0.5 million).

# Paper 2 Strategic Financial Management

**1 What is the difference between Fundamental Analysis and Technical Analysis?**

**Ans.** Fundamental analysis is based on the assumption that the share prices depend upon the future dividends expected by the shareholders. The present value of the future dividends can be calculated by discounting the cash flows at an appropriate discount rate and is known as the *'intrinsic value of the share'*. The intrinsic value of a share, according to a fundamental analyst, depicts the true value of a share. A share that is priced below the intrinsic value must be bought, while a share quoting above the intrinsic value must be sold.

In Fundamental Analysis, the overall economic and industry conditions to financial conditions and management of companies are analysed.

Technical Analysis is a method of share price movements based on a study of price graphs or charts on the assumption that share price trends are repetitive, that since investor psychology follows a certain pattern, what is seen to have happened before is likely to be repeated.

So, technical analyst does not measure a security's intrinsic value. They use stock charts to identify patterns and trends that suggest the performance of a stock in the future.

**2 Clarify the concept of cancellation of forward contact and enter into another contract at different dates in forex?**

**Ans.** Basically cancellation of a Forward Contract and entering into a new Forward Contract is Extension of Forward provided the same should be exercised before the maturity date of original contract.

**3 Which Is More Reliable, Average Beta or Weighted Beta?**

**Ans.** Weighted beta is more reliable if we have to compare the stock of two or more companies because weighted beta is calculated by multiplying the stock's weight by the beta of a particular stock.

**4 Discuss about time management, presentation pattern, interpretation in exam paper for good marks.**

**Ans.** Your query has been answered by taking all the three aspects separately.

Time Management – You have to adhere to a strategy where you have to decide as to how much time you should spend in a particular question. Always begin by answering the question which you are most comfortable with. If find a question very difficult attempt, leave it for moment and attempt it later. Otherwise, you can attempt a different question.

Presentation Pattern – You should try to solve the questions in a very methodical manner. Try to avoid too much cutting or lengthy steps. While writing theoretical answers, try to write in a very simple language.

Interpretation in exam – Read the question paper carefully.

**5 How to identify in Forex Base currency or Variable Currency in Q39 Pg 12.42 Old practice manual?**

**Ans.** In this question quotation has been given (JY/ INR) which clearly imply that the INR is base currency and JY is Quoting or Variable Currency. Moreover, this logic is seconded by the option strike price given in the question.

**6 How the ask rate is calculated in cross currency indirect quote?**

**Ans**. It is 1/ Direct Quote Bid Rate

**Q.7. What is currency option and how we can hedge our positions through currency option market?**

**Ans.** As per our position we can either go for Call Option or Put Option.

**Q.8. Merger acquisition Q-42 of jan 2017 pm . Why swap ratio of gross NPA is calculated as 5:40 and not 40:5**

**Ans.** Since NPA is negative value hence -40 is lesser than -5.

**Q.9. In Mutual Fund Topic in Q33 Old Practice Manual why Operating expense of Rs.2.24 Lakhs not deducted to compute NAV?**

**Ans.** Already adjusted in Cash in Hand at the end of the year.

**Q.9. In Q50 of forex page number 12.46 part c of New Practice Manual, why price per unit is taken as 2.01 when we have exercised option.**

**Ans.** Because strike price is 1.97 and buyer shall exercise his right to buy £ not at 2.05 plus premium on option.

**Q.10. In capital market ch 5, q no 47 (old edition) and the same q no 48 ( new edition), In case of perfect hedge : Profit or loss comes to zero then how can there be return of 36.67% in solution? please explain**

**Ans.** Although here it has been computed in context of expected option value. Alternatively, it can also be computed in context of investment made of Rs. 300.

**Q.11 What is an Economic Value Added (EVA) and how it is different Market Value Added (MVA)?**

**Ans.** The core concept behind Economic Value Added (EVA) is that a company generates 'value' only if there is a creation of wealth in terms of returns in excess of its cost of capital invested. So if a company's EVA is negative, it means the company is not generating value from the funds invested into the business. Conversely, a positive EVA shows a company is producing value from the funds invested in it.

EVA is a performance measure for management of the company, and this is as evident in its calculation formula as 'the excess of returns over the weighted average cost of invested capital'. The formula is as below –

EVA = Net Operating Profit after tax – (Invested Capital x Weighted Average Cos t of Capital)

On the other hand, the Market Value Added (MVA) means Current Market Value – Invested Capital. The MVA is also an alternative way to gauge performance efficiencies of an enterprise, albeit from a market capitalization point of view, the logic being that the market will discount the efforts taken by the management fairly.

**Q.12 What is a financial restructuring and why this has been resorted to?**

**Ans.** Financial restructuring refers to a kind of internal changes made by the management in Assets and Liabilities of a company with the consent of its various stakeholders. This is a suitable mode of restructuring for corporate entities who have suffered from sizeable losses over a period of time.

**Q.13. What are the most common Islamic Finance Products?**

**Ans.** Although there are number of Islamic Finance products, but some of common products/instruments are as follows:

Mudaraba

The Mudaraba is a kind of profit sharing arrangement wherein one party provides 100% of the capital involved and other party provides specialized knowledge and entrusted with exclusive responsibility of working. In case there is profit it shared among them in the pre-decided ratio and if there is loss only financier will borne the same.

Musharaka

It is a kind of joint business venture wherein all parties provide the capital in the business in agreed ratio and also have right to participate in the business. While the loss is strictly shared in the ratio of their capital contribution, the profit is shared as pre-agreed ratio.

Sukuk

It is one of the most popular Islamic financial products. It is a kind of 'Debt Certificate' representing ownership in business or assets and through this instrument company borrows the money. Although it appears to be conventional debt instruments but is differs in following aspects:

• To have share in profit of assets.

• To have share in the underlying assets on realization of assets.

Ijara

It is a kind of lease financing arrangement wherein one party transfer the asset to other partly for some specific time for specific fee which includes capital cost of assets and profit margin of the lessor. In this arrangement, the responsibility for maintenance of the leased items remains with the lessor.

Murabaha

Also, known as cost plus contract it is a kind of trade credit or loans and mainly helps exporters and importer in meeting their funding requirements. The main feature of this arrangement is that profit margin of the financier is known to the buyer. In this arrangement financier buys thee assets and sells to the client (buyer) and buyer pays to the financier in installments consisting of following two elements:

• Cost of asset financed.

• Financier's profit on acquisition of asset.

Istisna

It is a kind of funding arrangements for long term construction contracts wherein client pays some initial amount and balance amount is payable is repaid in installments. The whole project is funded by the financer and completion of project it is delivered to the client.

Salam

It is analogues to forward contract in the conventional finance. Though cash is received by the seller immediately on sale but goods as per pre-decided quality, quantity and time shall only be delivered in future. This sale shall be at the discounted price so that financer could make some profit out of the deal. However, it is important to note that Salam is prohibited in commodities such a gold, silver and other type of monetary assets.

**Q.14 What is a pitch presentation?**

**Ans.** Pitch deck presentation is a short and brief presentation (not more than 20 minutes) to investors explaining about the prospects of the company and why they should invest into the startup business. So, pitch deck presentation is a brief presentation basically using PowerPoint to provide a quick overview of business plan and convincing the investors to put some money into the business. Pitch presentation can be made either during face to face meetings or online meetings with potential investors, customers, partners, and co-founders.

**Q.15 Who are Angel Investors and how do they help startups?**

**Ans.** Angel investors invest in small startups or entrepreneurs. Often, angel investors are among an entrepreneur's family and friends. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages.

Angel investors who seed startups that fail during their early stages lose their investments completely. This is why professional angel investors look for opportunities for a defined exit strategy, acquisitions or initial public offerings (IPOs).

**Q.16 What are the sources from which financing is available to MSME units?**

**Ans.** Financial assistance in India for MSME units is available from a variety of institutions. The important ones are:

(i) Commercial/Regional Rural/Co-operative Banks.

(ii) SIDBI: Small Industries Development Bank of India (refinance and direct lending)

(iii) SFCs/SIDCs: State Financial Corporations (e.g. Delhi Financial Corporation)/State Industrial Development Corporations.

# Paper 3 Advanced Auditing and Professional Ethics

**1. Vandana Pvt Ltd is engaged in the business of providing corporate/professional training programs. It has an annual turnover of INR 69 crores. The company is subject to tax audit for which the work has been started by the tax auditor. For the financial year ended 31 March 2018, the company applied for GST registration for 2 new locations for which registration certificates have not yet been received by the company. However, the registration no is available on the portal of relevant authority which can be verified by checking the details of the company. In this case what should be the audit procedures to verify this registration number?**

**Ans** The tax auditor should verify the registration number for the locations for which registration certificates have not been received from online portal of the relevant authority. The auditor should ensure that the details furnished while checking the registration number pertains to the company only.

If the company has filed any returns for these locations, the auditor should enquire for the same from the management and should check those returns to verify the correctness of the registration numbers.

In addition, the auditor should also obtain specific representation in respect of this point from the management.

**2 What are the provisions and audit procedures as per newly inserted clause 30B of Form 3CD?**

**Ans** The newly inserted clause 30B requires reporting for the purposes of examining allowability of expenditure by way of interest in respect of debt issued by a non-resident associated enterprise ("AE") under section 94B, while computing income under the head "Profits and Gains of Business or Profession".

The newly inserted clause 30B requires reporting for the purposes of examining allowability of expenditure by way of interest in respect of debt issued by a non-resident associated enterprise ("AE") under section 94B, while computing income under the head "Profits and Gains of Business or Profession".

| The excess interest is to be computed as the lower of: |
|---|
| (i) Total interest paid or payable in excess of 30% of earnings before interest, taxes, depreciation and amortisation ("EBITDA") of the borrower in the previous year; or |
| (ii) Interest paid or payable to AEs for that previous year. |

The excess interest, which is disallowed, is allowed to be carried forward for a period of 8 assessment years following the year of disallowance, to be allowed as a deduction against profits and gains of any business in the subsequent years, to the extent of maximum allowable interest expenditure under this section.

Audit procedures to be performed

The term "debt" is widely defined to mean any loan, financial instrument, finance lease, financial derivative, or any arrangement that gives rise to interest, discounts or other finance charges that are deductible in computation of income chargeable under the head "Profits and Gains of Business or Profession".

The details of carried forward excess interest are to be given in this clause. This figure is to be computed after reducing the brought forward excess interest allowable as a deduction during the year under audit, or adding the excess interest of the year, as the case may be. The tax auditor should verify the draft computation of income certified by the management, or the tax advisor, as the case may be. For reporting for assessment year 2018-19, this figure would consist only of the excess interest for assessment year 2018-19, if any.

**3 Whether tax auditor is required to obtain a letter of appointment from the assessee for conducting the audit as mentioned in section 44AB?**

**Ans:** The tax auditor should obtain from the assessee a letter of appointment for conducting the audit as mentioned in section 44AB. It is advisable that such an appointment letter should be signed by the person competent to sign the return of income in terms of the provisions of section 140. It would also be useful if the letter affirms that no other auditor was appointed to conduct the tax audit for the year for which the appointment is being made. The letter may also give the name and address of the tax auditor for the previous year, wherever relevant. This would give the necessary information to the incoming tax auditor to enable him to communicate with the previous auditor. The letter of appointment should also specify the remuneration of the tax auditor. SA 210 – "Agreeing the Terms of Audit Engagement" issued by the ICAI requires that the auditor to agree with the terms of audit engagement with management or those charged with governance as appropriate. The agreed terms would need to be recorded in an audit engagement letter or other suitable form of written agreement.

**4 What are the provisions and audit procedures as per newly inserted clause 42 of Form 3CD?**

**Ans** New Clause 42 has been introduced where the tax auditor has to report that whether the taxpayer is required to furnish a statement of the specified financial transaction (in Form No.61 or Form No. 61A or Form No. 61B).

With respect to Form 61, the tax auditor should verify whether the taxpayer has entered into any transaction where the other party was required to quote PAN. He should verify whether the taxpayer has obtained declaration in Form No. 60 where the other party has not furnished his PAN. Wherever the taxpayer has received declarations in Form No. 60, the auditor should verify if the taxpayer has filed Form No. 61 including therein all the necessary particulars.

With respect to Form 61A, the tax auditor should ascertain whether the taxpayer is required to report any transactions under Section 285BA read with Rule 114E. It may be noted that specified transactions under Section 285BA include the issue of bonds, issue of shares, buy-back of shares by a listed company, etc. These transactions may not happen every year and hence special attention should be given in the year when a company taxpayer issues any security or a listed company undertakes buyback of shares.

While verifying the same, the tax auditor should ensure that the provisions of Rule 114E(3) have been properly considered and applied.

Failure to do so may result in a certain transaction not being reported. It may be noted that the payment may be received for various transactions and on different

dates, and hence these may not be covered under Section 269ST but will have to be reported under Section 285BA.

With respect to Form 61B, the tax auditor should review the due diligence procedures carried out by the taxpayer in accordance with provisions of Rule 114H and the results of such procedures. The tax auditor should review the list of Reportable Accounts identified by the due diligence process and the information to be maintained and reported by the taxpayer.

In case any reportable account has been omitted, or there is any error or omission in Form 61B, the same may be reported under the Form No. 3CD. The auditor should verify if the taxpayer has filed Form No. 61B for correcting errors or omissions in the form filed originally. In such a case the auditor should give details of both the forms filed. The errors in the original Form 61B which are corrected in the revised Form 61B need not be reported under Form No. 3CD.

The tax auditor should verify that Form 61B is duly signed by the designated director and filed.

**5 What are the provisions and audit procedures as per newly inserted clause 43 of Form 3CD?**

**Ans** Clause 43 has been newly introduced in Form No. 3CD. The Finance Act, 2016 by introducing Section 286 in the Act, has introduced provisions relating to the Country by Country Report (CbCR) and Master File pursuant to the adoption of OECD's Base Erosion and Profit Shifting (BEPS), Action Plan 13 in India.

Under Section 286, an international group has to furnish CbCR containing information about the whole group comprising of various constituent entities.

Such a report is to be filed in India if the parent entity is resident of India or the international group has appointed a constituent entity which is resident in India to file CbCR on behalf of the whole group.

The report under Section 286(2) is filed by the parent entity which is resident in India or the alternate reporting entity which is resident in India.

For tax audit for the assessment year 2018-19, the tax auditor should comment upon report Section 286(2) that was required to be filed on or before 31 March 2018.

The tax auditor should verify if the taxpayer is required to file the Form 3CEAC based on the satisfaction of the conditions prescribed

The tax auditor should also verify if the taxpayer whose parent is a non-resident has filed Form No. 3CEAC.

The tax auditor may obtain a necessary certificate from the taxpayer in respect of constitution of the international.

**6 Which are the various forms to be filed under GST Act.**

**Ans** Following are the various forms to be filed under GST Act

- GSTR 9 : GSTR 9 should be filed by the regular taxpayers filing GSTR 1, GSTR 2, GSTR 3
- GSTR 9A : GSTR 9A should be filed by the persons registered under composition scheme under GST.

- GSTR 9B : To be filed by e-commerce operators
- GSTR 9C : Should be by the taxpayers whose annual turnover exceeds ` 2 Crores during the financial year. All such taxpayers are also required to get their accounts audited and file a copy of audited annual accounts and reconciliation statement of tax already paid and tax payable as per audited accounts alongwith GSTR 9C.

### GSTR 9 - Annual Return Filing, Format, Eligibility & Rules

GSTR 9 form is an annual return to be filed once in a year by the registered taxpayers under GST including those registered under composition levy scheme. It consists of details regarding the supplies made and received during the year under different tax heads i.e. CGST, SGST and IGST. It consolidates the information furnished in the monthly/quarterly returns during the year.

All the registered taxable persons under GST must file GSTR 9 form. However, the following persons are not required to file GSTR 9

- Casual Taxable Person
- Input service distributors
- Non-resident taxable persons
- Persons paying TDS under section 51 of GST Act.

**7 Which documents the auditor would require for declaring the details of turnover under Sl. No.5A of Form GSTR 9C?**

### List of documents

**Ans:** Sl. No. 5A is intended to report the turnover as per the audited Annual Financial Statement for a GSTIN. The following list of documents could be obtained by the Auditor for the purpose of declaring the details of turnover under this Sl. No.:

a. Annual Financial Statements

b. Registrant wise Trial Balance to facilitate furnishing the Form GSTR 9C for each registrant;

c. Communication with the other Auditor to obtain details of the turnover declared by them to ensure completeness and holistic reconciliation of turnover of the Registered Person;

d. Form GSTR 9C, if already filed by a different Auditor, in case of multiple registrations of the Registered Person;

e. GST (Viz. Form GSTR 3B and Form GSTR 1) returns filed by the Registered Person to ensure that the turnover declared in the returns match the turnover captured in the audited financial statements

f. Income tax Returns (ITR) to ensure that the turnover details are reconciled with the turnover per GST.

8. Mr. 'G', while applying for a certificate of practice, did not fill in the columns which solicite information about his engagement in other occupation or business, while he was indeed engaged in a business. Comment with reference to Chartered Accountants Act, 1949 and Schedules there to.

**Ans** As per Clause (2) of Part III of First Schedule to the Chartered Accountants Act, 1949 a member shall be held guilty if a Chartered Accountant, in practice or not, does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;

In the given case, Mr. "G", a Chartered Accountant while applying for a certificate of practice, did not fill in the columns which solicit information about his engagement in other occupation or business, while he was indeed engaged in a business. Details of engagement in business need to be disclosed while applying for the certificate of practice as it was the information called for in the application, by the Institute.

Thus, Mr. G will be held guilty for professional misconduct under the Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949.

**9. Do we need to quote Clauses number and clause in case of Professional Ethics question?**

**Ans** Yes, you should write relevant clause and its number in the answer based on Professional Ethics.

**10. Is Division 3 of Schedule 3 related to NBFC applicable for May 19 exams?**

**Ans** Yes, all the divisions of Schedule III are applicable for May 2019 Examination.

**11. Whether revised SA 299 and SA 720 are applicable for May 19 examinations?**

**Ans** Yes, revised SA 299 and SA 720 are applicable for May 2019 Examination.

**12. What is the cut-off date regarding applicability of legislative amendments by way of notifications/circulars issued by various Regulating Authorities for May 19 examination?**

**Ans** 31st October 2018.

## PAPER 4: CORPORATE AND ECONOMIC LAWS

**1. How many marks of Multiple Choice Questions will be asked in the Paper of Corporate and Economic Laws?**

**Ans** The question paper will have two divisions, Division A comprising MCQs to the tune of 30 marks (each carrying 1 to 2 marks) and Division B comprising descriptive type questions to the tune of 70 marks.

**2. Will the MCQs be asked from both the Company Laws and Economic Laws?**

**Ans** Yes, MCQs will be asked from both the Company Laws and Economic Laws. Out of 30 Marks, MCQs of 24 Marks will be asked from Company Law portion and 6 Marks will be asked from Economic Laws portion.

**3. What types of skills will be assessed in MCQs?**

**Ans:** Students will be tested on 'Knowledge and Comprehension' and 'Application and Analysis' basis.

**4. What shall be the mode of answering the question paper containing MCQ's and the descriptive type questions?**

**Ans** Candidates will be required to write their answers in respect of Division A of the paper (i.e. MCQs) in OMR answer sheet by darkening the appropriate circles with HB pencil and Division B of the paper (i.e. the descriptive type questions) in the descriptive type answer booklet in the normal course.

**5. Will there be any choice or all MCQs will be compulsory?**

**Ans:** All the MCQs are compulsory. There would be no internal or external choice.

**6. Whether there will be negative marking for wrong answers?**

**Ans** There will be no negative marking for wrong answers.

**7. Whether reasoning is required to be given along with answers of MCQs?**

**Ans** No reasoning is required for answers to MCQs.

**8. From where can the students see the questions for 30:70 Assessment pattern?**

**Ans** The sample questions for 30:70 assessment are available on the website of the Institute.

**9. Will a separate time be allotted for answering the MCQs?**

**Ans** There is no segregation of timing within the 3 hours duration, separately for answering descriptive type questions and objective type questions. Candidates will be free to use the time as per their convenience.

**10. What can be used for filling of OMR Sheets during the examination?**

**Ans** Students are advised to carry HB pencils and erasers to the exam hall. No exchange of pencils or erasers will be permitted in the exam hall.

**11. What will be the case where more than one circle/ no circle is darkened?**

**Ans** No mark will be awarded, in case no circle is darkened or more than one circle is darkened in respect of a particular question in the OMR answer sheet.

**12. Is there change in reading time due to introduction of composite paper i.e. containing MCQ's & descriptive questions?**

**Ans** Reading time of 15 minutes will continue to be allowed in the composite papers, as in other papers.

**13. What is the cut off period of the amendments applicable for a particular attempt?**

**Ans** A cut off period of six month prior to the examination has been prescribed i.e. for May examinations the cut- off date will be 31st October of the preceding year and for November examinations the cut- off date will be 30th April of the same year.

**14. From where can the students refer the amendments?**

**Ans** The students can refer the amendments from the authorised website with respect to a particular Legislature, say for the Companies Act, 2013 (mca.gov.in), the Securities and Exchange Board of India Act, 1999 (sebi.gov.in), FEMA (www. rbi.org) etc.

For the benefit of the students, all the relevant amendments are compiled and provided through the Revisionary Test Papers.

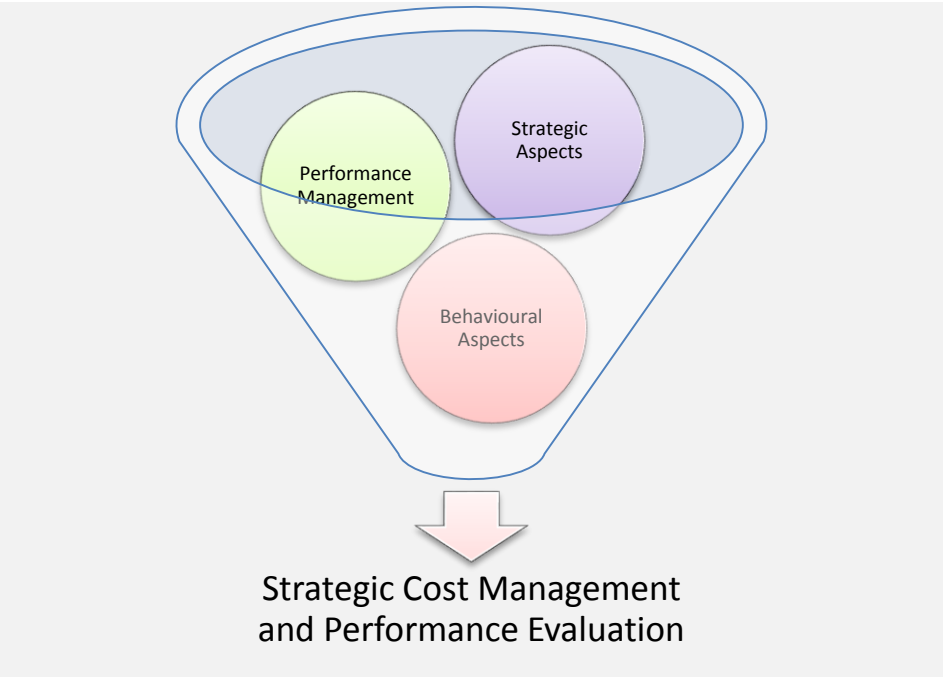
**15. What are available sources related to the subject for the reference of the students?**

**Ans** Study material, Revision Test Papers, Mock test papers, video lectures, e- capsules for quick revisions, Sample questions for MCQ's on the website, Live virtual classes etc.

**Paper 5 Strategic Cost Management and Performance Evaluation**

1) What is the key difference between the Old Syllabus and New Syllabus CA Final P-5?

Ans Strategic issues are increasingly becoming important, cost management has transformed from a traditional role of product costing and operational control to a broader, strategic focus. Syllabus of SCM & PE not only includes *strategic aspects* of management accounting but also includes *performance management* and *behavioral management accounting* with highly focus on customer supplier, and internal process effectiveness.




Syllabus comprises many contemporary concepts:

| | |
|---|---|
| ▪ Concept of Strategic Cost Management<br>▪ Business Excellence Model<br>▪ Supply Chain Management (SCM)<br>▪ Gain Sharing Arrangements<br>▪ Kaizen Costing<br>▪ 5 Ss<br>▪ Total Productive Maintenance (TPM)<br>▪ Cellular Manufacturing/ One-Piece Flow Production Systems<br>▪ Six Sigma (SS)<br>▪ Process Innovation<br>▪ Business Process Re-engineering (BPR)<br>▪ Value Analysis/ Value Engineering<br>▪ Value Shop Model<br>▪ Environmental Management Accounting<br>▪ Linking Critical Success Factors (CSFs) to Key Performance | ▪ The Performance Pyramid<br>▪ The Performance Prism<br>▪ The Building Block Model<br>▪ Divisional Performance Measures<br>▪ ROI/ RI/ EVA/ Triple Bottom Line<br>▪ Benchmarking Schemes<br>▪ Performance Measurement in the Not-for-Profit Sector<br>▪ Performance Reports<br>▪ The Behavioural Consequences arising from Divisional Structures<br>▪ International Transfer Pricing<br>▪ Activity Based Management (ABM)<br>▪ Activity Based Budgeting (ABB)<br>▪ The Concept of Feedback and Feed Forward Control<br>▪ Behavioural Aspects of Budgeting – Imposed Style, Participative Budget<br>▪ Behavioural Aspects of Budgetary Control |

| | |
|---|---|
| Indicators (KPIs) and Corporate Strategy<br>▪ The Balanced Scorecard | ▪ Beyond Budgeting etc. |

*Therefore, subject under new scheme is quite different from the subject in old scheme.*

2) What is Marks Weightage of Theory & Numerical?

Ans The questions/ Cases at this level are based on *Skill Assessment*. An illustrative list of the verbs that appear in the question requirements for each question is given below. It is important that students answer the question according to the definition of the verb.

| Level | Prescribed % | Learning Objective | Illustrative Verbs | Definition |
|---|---|---|---|---|
| Level I | 10%-15% | KNOWLEDGE<br>What you are expected to know? | List | Make a list of |
| | | | State | Express, fully, or clearly, the details/facts of |
| | | | Define | Give the exact meaning of |
| | | COMPREHENSION<br>What you are expected to understand? | Describe | Communicate the key features |
| | | | Distinguish | Highlight the differences between |
| | | | Explain | Make clear or intelligible/State the meaning or purpose of |
| | | | Identify | Recognise, establish or select after consideration |
| | | | Illustrate | Use an example to describe or explain something |
| Level II | 45%-55% | APPLICATION<br>How you are expected to apply your knowledge? | Apply | Put to practical use |
| | | | Calculate | Ascertain or reckon mathematically |
| | | | Demonstrate | Prove with certainty or to exhibit by practical means |
| | | | Prepare | Make or get ready for use |
| | | | Reconcile | Make or prove consistent/compatible |
| | | | Solve | Find an answer to |
| | | | Tabulate | Arrange in a table |
| | | ANALYSIS<br>How are you expected to analyse the detail of what you have learned? | Analyse | Examine in detail the structure of |
| | | | Categorise | Place into a defined class or division |
| | | | Compare and contrast | Show the similarities and/or differences |

| | | | | |
|---|---|---|---|---|
| | | | | between |
| | | | Construct | Build up or compile |
| | | | Discuss | Examine in detail by argument |
| | | | Interpret | Translate into intelligible or familiar terms |
| | | | Prioritise | Place in order of priority or sequence for action |
| | | | Produce | Create or bring into existence |
| Level III | 35%-40% | EVALUATION<br>How are you expected to use your learning to evaluate, make decisions or recommendations? | Advise | Counsel, inform or notify |
| | | | Evaluate | Appraise or assess the value of |
| | | | Recommend | Advise on a course of action |

It may be presumed that the skills specified in Level I are inherent in Level II i.e., only when the student possesses Level I skills, he/ she would be able to achieve Level II skills. Likewise, the skills specified in Levels I and II are inherent in Level III i.e., only when a student possesses Level I and II skills, he/ she would be able to achieve Level III skills.

3) Is there any Chapter/ Part-wise Mark Weightage?

Ans The syllabus of SCMPE is segregated into the *three parts* for its full coverage. Table showing the contents of the syllabus and weightage of marks is as follows:

| Part | Contents of the Syllabus | Range of Marks |
|---|---|---|
| A | Strategic Cost Management and Decision Making | 35% – 40% Marks |
| A-I | Strategic Cost Management | Max. ~25% Marks |
| A-II | Strategic Decision Making | Max. ~15% Marks |
| B | Performance Evaluation and Control | 35% – 40% Marks |
| B-I | Performance Evaluation and Reporting | Max. ~25% Marks |
| B-II | Managerial Control | Max. ~ 15% Marks |
| C | Case Study (covering Course Concepts) | 20% – 30% Marks |

4) What are objectives of Case Study/ Case Scenario?

*Case Study*

Ans The basic objective of a Case Study is to allow the students to apply ideas and insights from theory to the *real-life issues* and *problems*.

Case Study may include the organization's mission statement and strategic objectives and students will be expected to be able to assess the methods by which the organization is controlling, managing, and measuring performance in order to achieve its objectives. This assessment could include an *evaluation of* the organization's performance report, new strategies or projects and its performance management and measurement systems.

Students are expected to undertake calculations, draw comparison against relevant information where appropriate and be prepared to offer alternative recommendations as needed. Students are required to look across a range of issues which will affect organizational performance, the achievement of objectives and impact on operations and so there shall be *focus on a range of issues from across syllabus*.

*Case Scenarios*

Case Scenarios, as opposed to Case Studies, are *short cases*. Written in a more compact style with an appealing narrative, the Case Scenario's focus is on covering more depth in *a specific area*.

While Case Studies provide the width and depth required for a holistic *analysis-based-discussion*, Case Scenario enable more *in-depth analysis* of a given managerial dilemma.

5) How to deal with Case Studies/ Case Scenarios?

*Ans* *Essentials*

- Case Study is not about the quantity, but the quality.
- Prepare a plan for each issue.
- Decide what models to use and prioritize the issues.
- Identify the impact and alternative actions that could be taken, as well as the relevant concepts and calculations required.
- Answer should have a logical flow.
- Offer a detailed analysis of the issues and conclude with sound, well justified recommendations.
- Not to spend too much time on calculations.
- Do not place too much attention and time on the presentation.
- Quality of discussion on each issue which is most important, not the ranking order.
- Discuss each of the issues in depth, explaining their impact.
- Do not leave any of the issue undecided.
- Recommendations should include 'what to do', 'why to do it' and 'how to do it'.
- Identify ethical issues and then briefly justify.
- Recommendation should appear at the end of the report.

- Practice makes perfect.

6) Can I ignore Case Studies/ Case Scenarios?

Ans Case Studies are important part of the curriculum (prescribed weightage 20% to 30%) and contemporary topics can be assessed mainly through the Case Studies/ Case Scenario. Hence, you can't ignore it.

7) Do I need to cover all types of 'Variances'?

Ans The syllabus covers Analysis and Interpretation of Variances. All of the variances previously examined in Intermediate Paper 3 are assumed knowledge here. Again, the emphasis is on the *implications of the calculations, not just the calculations themselves*.

8) Can I refer Old Syllabus Resources?

*Ans* *"In context with the Skill Assessment for the Scheme of Education and Training for the subjects at all the levels, students are made aware of the level of skills which would be assessed in respect of each content area and can accordingly prepare for the examination. This would ensure dynamism in assessment, which is one of the principles of assessment laid down under IES 6." (*Refer prospectus page '15')

Due to Change in 'Skill Assessment for the Scheme of Education and Training', it is not feasible to incorporate, questions based on 'Skill Assessment' as per old scheme (as it is). Hence, we have incorporated/ developed only questions relevant to the principles of assessment laid down under IES6.

You may practice questions of similar topic/(s) from Old Course Resources. However, you have to take care Skill Assessment i.e. application of verbs– Advise, Recommend, Evaluate, Discuss, Analysis etc.

9) Which Study Material is relevant for Nov'19 Examination?

Ans You may refer Jan'19 Revised Edition.

10) How can I revise SCMPE Quickly?

Ans You may refer Quick Revision Capsule.
URL:https://resource.cdn.icai.org/49180bos080318b.pdf

## Paper 7: Direct Tax Laws & International Taxation

**1. Whether the amendments made by the Finance Act, 2019 are relevant for May 2019 and November 2019 Examinations?**

**Ans.** **No**; The amendments made by the Finance Act, 2019 are **not** relevant for May 2019 and November 2019 Examinations.

The Income-tax Act, 1961, as amended by the Finance Act, 2018, is relevant for May 2019 and November 2019 Examinations. The relevant assessment year is A.Y. 2019-20.

Further, notifications, circulars and legislative amendments made upto six months prior to the examination are applicable for the examination. Accordingly, notifications, circulars and other legislative amendments made upto 31.10.2018 are relevant for May 19 examination and upto 30.4.2019 are relevant for November 2019 examination.

**2. What are the BoS publications relevant for May 2019 and November 2019 Examinations?**

**Ans.** **Study Material [4 Modules]:** September 2018 edition of the Study Material is relevant for May 2019 and November 2019 examinations.

**Revision Test Paper (RTP) for May 2019 and November 2019 Examination:** There are two parts in the RTP. The Statutory Update i.e., notifications, circulars and other legislative amendments are contained in Part I and Questions & Answers are contained in Part II.

**Judicial Update [Recent Supreme Court & High Court Judgements]:** Recent significant judicial decisions are webhosted at the BOS Knowledge Portal on the Institute's website

**Sample Objective Type Questions:** Sample MCQs are webhosted at https://www.icai.org/post.html?post_id=15206 on the Institute's website

**3. Are the above BOS publications relevant for Final (Old) Paper 7: Direct Tax Laws also?**

**Ans.** **Yes**; the above publications are also relevant for Final (Old) Paper 7 also. However, in Module 4 of the Study Material, the following topics contained in Chapters 6, 7 and 8 are not relevant for Final (Old) Paper 7:

- Overview of Model Tax Conventions
- Application and Interpretation of Tax Treaties
- Fundamental of BEPS.

Thus, Final (Old) Course Students are advised to study all chapters in Modules 1 to 3 and Chapters 1 to 5 of Module 4 of the Study Material.

RTP is prepared separately for the Final (Old) Course and Final (New) Course. The questions in common chapters remain the same in both RTPs.

**4. Have skill-wise and section-wise weightages been assigned for Final (New) Paper 7: Direct Tax Laws & International Taxation and Final (Old) Paper 7: Direct Tax Laws?**

**Ans.** Yes, skill-wise and section-wise weightages assigned for Final (New) Paper 7 are available at https://resource.cdn.icai.org/46878bos36667.pdf and https://resource.cdn.icai.org/49201bos32949.pdf.

The skill-wise and section wise weightages for Final (Old) Paper 7: Direct Tax Laws are available at https://resource.cdn.icai.org/53970bos43334finalold-p7.pdf

**5. What would be the pattern of assessment for May 2019 and November 2019 Examinations?**

**Ans.** For both Final (New) Paper 7 & Final (Old) Paper 7, the assessment would be partially based on objective type questions (MCQs). The weightage for MCQs would be 30% i.e., 30 marks. The remaining questions i.e., 70% of the paper would be as per the present pattern of assessment. The MCQs will carry 1 or 2 marks. There will be no negative marking for wrong answers. It may be noted that MCQs will be compulsory and there will be no internal or external choice in them.

**6. Whether the provisions of first proviso (foreign currency fluctuation) and benefit of indexation contained in second proviso to section 48 are available for computation of long-term capital gains referred to in section 112A, 115AB, 115AC, 115AD and Chapter XII-A?**

**Ans.**

- The provisions of the first and second proviso to section 48 would not apply while computing long-term capital gains arising on transfer of
  - equity share in a company or unit of equity oriented fund or unit of business trust referred to in section 112A,
  - bonds or GDRs referred to in section 115AC,
  - securities referred to in section 115AD in the hands of FIIs.

- The benefit of indexation shall not be available while computing long-term capital gains arising from transfer of units referred to in section 115AB in the hands of Offshore Fund and long-term capital gains arising on transfer of specified assets referred to in Chapter XII-A in the hands of non-resident Indian (meaning an individual, being a citizen of India or a person of Indian origin who is not a resident).

**7. Whether the benefit of adjusting unexhausted basic exemption limit is available in respect of LTCG chargeable to tax under section 112, 112A and 111A? If so, is it available for both residents and non-residents?**

**Ans.** The benefit of adjusting unexhausted basic exemption limit against LTCG chargeable to tax under section 112 and 112A and STCG chargeable to tax under section 111A is available only in case of resident individuals or HUFs. Thus, this benefit is not available in case of assessees other than individuals and HUF. It is also not available to non-resident individuals or HUFs.

**8. Whether deduction under Chapter VI-A is available from capital gains chargeable to tax under section 115AB, 115AC, 115AD and Chapter XII-A?**

**Ans.** No, deductions under Chapter VI-A cannot be availed in respect of long-term capital gains chargeable to tax under section 115AB, 115AC, 115AD and Chapter XII-A. Moreover, deduction under Chapter VI-A would also not be available in respect of long-term capital gains chargeable to tax under section 112 or 112A and short-term capital gains chargeable to tax under section 111A.

**9. When would dividend received by a foreign company be taxable under section 115BBDA?**

**Ans**. Dividend received by a foreign company would be taxable under section 115BBDA, where such foreign company has become resident in India during the previous year on account of its place of effective management being in India in that previous year. In such case alone, dividend exceeding Rs. 10 lakhs would be taxable @10% under section 115BBDA in the hands of a foreign company.

**10. How do we compute tax liability in case of assessees to whom presumptive provisions under section 44B, 44BB, 44BBA and 44BBB of the Income-tax Act, 1961 apply?**

**Ans.** Under section 44B, 44BB, 44BBA and 44BBB, in respect of assessees engaged in certain business, specified percentage is prescribed. The amount calculated by applying the specified percentage would be the income of the assessee from such business. Tax (including surcharge, if applicable, and cess @4%) would be computed on such income (after including other income, if any, of the assessee) by applying the rates specified in Part III of the First Schedule to the Finance Act and special rates, if applicable, provided in relevant sections of the Income-tax Act, 1961.

**11. Can a charitable trust registered under section 12AA claim exemption under section 10?**

**Ans**. Since a charitable trust voluntary opts for special dispensation under section 11, 12 and 13, it would be governed by these specific provisions and would not be allowed to claim exemption under section 10 in respect of any income [except agricultural income referred under section 10(1) and any income referred under section 10(23C)]. It has to necessarily apply its 85% of its income for the purpose of the trust to claim benefit under section 11.

**12. Does the cap on cash transactions contained under section 40A(3) and 40A(3A) apply to a charitable trust registered under section 12AA?**

**Ans.** Yes, while computing the amount of income applied for the purpose of the trust under section 11, the provisions of section 40A(3) and 40A(3A) would, *mutatis mutandis*, apply.

**13. Would disallowance referred to in 40(a)(ia) in respect of expenditure on which tax is not deducted at source apply while computing income applied for the purpose of trust under section 11?**

**Ans.** Yes, 30% of the expenditure in respect of which tax is not deducted at source, would be disallowed. Only 70% of expenditure would be treated as application of income.

**14. Whether pass-through status is available to a business trust, being a REIT, in respect of all income earned by it?**

**Ans**. No; Pass through status is available to a REIT only in respect of interest income received from special purpose vehicle (SPV) and rental income from the real estate property directly held by it.

# Paper 8 Indirect Tax Laws

**1. Please elaborate the applicability of the CGST (Amendment) Act, 2018 and IGST (Amendment) Act**.

**Ans** Since the CGST (Amendment) Act, 2018 and IGST (Amendment) Act, 2018 have become effective from 01.02.2019, they are not applicable for May, 2019 examination except the following sections of said Acts, which have become retrospectively effective from 1st July, 2017:

(i) Section 3 of the CGST Amendment Act, 2018 amending section 7 of the CGST Act, 2017, and

(ii) Section 31 of the CGST Amendment Act, 2018 amending Schedule II to the CGST Act, 2017.

Further, it maybe be noted that the amendments made by the CGST (Amendment) Act, 2018 and IGST (Amendment) Act, 2018 are applicable for November 2019 examination.

Students are also advised to refer the Study Guidelines hosted at the BoS Knowledge Portal for Paper 8: Indirect Tax Laws (Old and New) for better clarity.

**2. Under GST, a number of amendments have been made with regard to GST rate on real estate sector in pursuance of the decisions taken by the GST Council in its 33rd and 34th meetings held on 24.02.2019 and 19.03.2019 respectively. Whether such amendments are applicable for November, 2019 examinations**?

**Ans** With regard to amendments in real estate sector, it may be noted that rate of tax prescribed for supply of services and manner of determination of input tax credit in respect of inputs, input services or capital goods and reversal thereof in respect of real estate projects have been excluded from the syllabus vide Study Guidelines. The remaining amendments made in relation to real estate sector **to the extent covered in the Statutory Update** for November 2019 examination alone shall be relevant for the said examination.

**3. Please discuss the applicable position of law for May, 2019 and November, 2019 examination.**

**Ans** In May, 2019 examinations, students are expected to be aware of position of (i) GST law as amended by the significant notifications/circulars issued till 31st October, 2018 and (ii) customs law as amended by the Finance Act, 2018 and significant notifications/circulars issued till 31st October, 2018.

Further, in November, 2019 examinations, students are expected to be aware of position of (i) GST law as amended by the significant notifications/circulars issued till 30th April, 2019 and (ii) customs law as amended by the Finance Act, 2018 and significant notifications/circulars issued till 30th April, 2019.

**4. What is the applicable Study Material for May, 2019 and November, 2019 examinations?**

**Ans** The October 2018 Edition of the Study Material on Final Paper 8: Indirect Tax Laws [comprising of 4 Modules, Modules 1 – 3 on Part I: Goods and Services Tax & Module 4 on Part II: Customs & FTP] is based on the CGST Act, 2017 and IGST Act, 2017 as amended up to 31.10.2018 and customs laws as amended by the Finance Act, 2018. The same is relevant for both May, 2019 and November, 2019 Examinations. This is an integrated Study Material including questions and answers and case laws (in customs law).

Significant notifications and circulars issued till 31.10.2018 in CGST and IGST laws are included in the Study Material. In customs law, the significant notifications and circulars issued till 30.04.2018 are included in the Study Material.

For May, 2019 examination, significant notifications and circulars issued between 01.05.2018 to 31.10.2018 in customs law - which are not covered in the October 2018 Edition of the Study Material – are given as Statutory Update for May, 2019 examination. The Statutory Updates for May, 2019 examination are hosted on the BoS Knowledge Portal.

For November, 2019 examination, the amendments made by the CGST Amendment Act, 2018 and IGST Amendment Act, 2018 as also the notifications and circulars issued between 01.11.2018 and 30.04.2019 - to the extent covered in the Statutory Updates for November, 2019 examination alone shall be relevant for the said examination. The Statutory Updates for November, 2019 examination shall be hosted on the BoS Knowledge Portal.

**5. Compute the value of 'exempted supply' for purpose of section 17(2) of the CGST Act, 2017 from the following details:**

**(i) Value of alcoholic liquor for human consumption: Rs. 1,50,000**

**(ii) Value of architect services supplied: Rs.2,00,000**

**(iii) Securities of face value of Rs. 1,00,000 sold for Rs. 95,000**

**(a) Rs. 1,50,000**

**(b) Rs. 2,50,000**

**(c) Rs. 2,45,000**

**(d) Rs. 1,50,950**

**Please explain how value of 'exempted supply' has been computed in above MCQ.**

**Ans** The value of exempted supply has been computed as under:

=Rs. 1,50,000 + Rs. 950 (1% of sale value of security)

In addition to that, refer explanation 2(b) to Chapter V - Input Tax Credit of the CGST Rules, 2017 for better clarity.

**6. In which of the following cases, import of services by an individual is taxable under GST?**

**(1) Import of service with consideration in course or furtherance of business.**

**(2) Import of service with consideration not in course or furtherance of business.**

**(3) Import of service without consideration from a related person in course or furtherance of business.**

**(4) Import of service without consideration from a related person not in course or furtherance of business.**

**(a) (1) and (3)**

**(b) (2) and (4)**

**(c) (1), (2) and (3)**

**(d) (4)**

**Importation of service with consideration not in course or furtherance of business as mentioned in point (2) above is a supply as per section 7 of the CGST Act. Hence, should option (c) be not the correct option?**

**Ans** The question requires the student to test the taxability of the transactions given therein. Import of service with consideration not in course or furtherance of business by an individual though qualifies as supply, it is specifically exempt vide *Notification No. 9/2017 IT (R) dated 28.06.2017* as amended. Thus, it is not liable to tax. Therefore, the correct answer is option (a).

**7. With regards to position of law applicable for May, 2019 examination, whether the benefit under *Order No. 01/2017 CT dated 13.10.2017* is applicable only to a restaurant service provider? Or does it apply to a manufacturer and trader also?**

**Ans** Benefit of *Order No. 01/2017 CT dated 13.10.2017* is available to any person who supplies goods and/or services referred to in clause (b) of paragraph 6 of Schedule II of the said Act (restaurant service) and also supplies any exempt services. Therefore, if a manufacturer or trader also supplies exempt services, said order shall be applicable to them as well.

**8. With regards to position of law applicable for May, 2019 examination, if a supplier supplies taxable goods from Maharashtra valuing Rs. 5,00,000 and from a Special Category State – Uttarakhand amounting Rs. 11,00,000, will he be liable to be registered only in Uttarakhand or in both Maharashtra and Uttarakhand?**

**Ans** Registration under GST is PAN based. Therefore, once a person becomes liable to register in a Special Category State since his turnover has exceeded the threshold limit of Rs. 10 lakh, he becomes liable to register in all other States from where he makes a taxable supply under same PAN. Therefore, he is liable to get registered in both Maharashtra and Uttarakhand.

**9. Kamlesh hires a works contractor for repairing his factory building on a lumpsum payment of Rs. 11,80,000. He debits half of the expenditure in the profit and loss account and the remaining half in the building account.**

**Assuming the rate of GST to be 18%, Kamlesh can take input tax credit of:**

**(a) Rs. 90,000**

**(b) Rs. 1,06,200**

**(c) Rs. 2,12,400**

**(d) Nil**

**Since ITC is disallowed on works contract services when supplied for construction of an immovable property, why 50% ITC is allowed and option (a) is marked as correct option in given case?**

**Ans** ITC on works contract services for construction of an immovable property is disallowed. Construction, includes, *inter alia*, repairs, to the extent of capitalization, to the said immovable property.

Since in the given case, only 50% is capitalized and rest 50% is charged to P & L Account, credit of works contract services of repairs of building to the extent of capitalization [i.e. 50%, Rs. 90,000] will be disallowed and rest 50%, i.e. Rs. 90,000 will be allowed.

**10. Mr. Jeet Ram, an agriculturist, located in the State of Uttar Pradesh, is a re-seller of agricultural produce cultivated from land. His turnover for the period July, 2017 to March, 2018 is Rs. 20,00,000/-**

**He has made occasional inter-State taxable supplies also of Rs. 10,00,000/- of handicraft goods to the State of Jammu and Kashmir during the month of March, 2018.**

**Compute the aggregate turnover of Mr. Jeet Ram for the financial year 2017-18 under the CGST Act, 2017, and also state whether he is liable for registration under the Act or not.**

**a) Rs. Nil; Not liable for registration**

**b) Rs. 10,00,000/-; Not liable for registration**

**c) Rs. 35,00,000/-; Not liable for registration**

**d) Rs. 30,00,000/-; Liable for registration**

**In the above question, why (d) has been marked as correct answer? Why is the person liable for registration even if he is selling agriculture produce**?

**Ans** As per section 23(1) of the CGST Act, 2017, agriculturist is exempt from obtaining registration to the extent of supply of produce out of cultivation of land.

Mr. Jeet Ram is not exempt from registration in terms of section 23 of the CGST Act, 2017 since he is a trader of agricultural produce and not selling agricultural produce from cultivation of land.