

FINAL COURSE
(UNDER REVISED SCHEME OF
EDUCATION AND TRAINING)
GROUP – II

REVISION TEST PAPERS
NOVEMBER, 2020



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)
New Delhi

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REVISION TEST PAPER, NOVEMBER, 2020 – 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 (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

- (i) Planning and preparing for examination
- (ii) Subject-wise guidance – An overview
- (iii) Updates applicable for a particular exam in the relevant subjects
- (iv) Topic-wise questions and detailed answers thereof in respect of each paper
- (v) Relevant announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections 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. It is important to remember that there can be large number of other complex questions

which are not covered in the RTP. In fact, questions contained herein are only illustrative in nature.

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.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website www.icai.org under the BOS knowledge portal in students section 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. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and 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. Keep sometime for checking the answers as well.
- 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.
- 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.

III. Subject-wise Guidance – An Overview

PAPER - 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

The Revision Test paper on Strategic Cost Management and Performance Evaluation covers Case Studies/ Questions on the following topics:

S. No.	Topic	About the Problem	Verbs used	Industry
1.	Competitive Advantage.	Strategy that should be followed to gain superior performance and competitive advantage over competitors.	Advise	Airline
2.	Supply Chain Management.	Analysis on the non-financial measures of quality.	Analyze	Apparel Manufacturer
3.	Value Chain Analysis.	Discussion on three primary activities of value chain through which firm can minimise cost gap.	Discuss	Toy Manufacturer
4.	Theory of Constraints.	To determine the optimum production mix; price customization; most appropriate pricing policy.	Prepare, Calculate, Recommend. List, State	Manufacturer of Products
5.	Ethical and Non-Financial Considerations.	Discussion on non- financial considerations.	Discuss	Manufacture of Chemical Intermediaries.
6.	Direct Product Profitability.	Financial analysis; discussion on activity-based management.	Analyse, Discuss	Decorative's Manufacturer.
7.	Standard Costing.	Variance analysis; advise on strategic inputs.	Analyse, Advise	Flooring Rolls Manufacturer.

8.	Non- Financial Performance Measures.	Financial performance vs. Customer satisfaction.	Discuss	Trader of Household Products.
9.	Performance Measurement in Not for Profit Sector.	Comment on the performance against objectives.	Prepare, Comment	Charity
10.	Competitive Advantage.	Identify the strategy (cost leadership vs. differentiation).	Identify, Justify	---
<i>Every effort has been made to include all possible elucidations for a given case/question aided by outline and well-chosen photographs for quick industry reference.</i>				

PAPER 7: DIRECT TAX LAWS AND INTERNATIONAL TAXATION

The syllabus of this paper is divided into two parts, namely, Part I: Direct Tax Laws (70 Marks) and Part II: International Taxation (30 Marks).

The provisions of direct tax laws, as amended by the Finance Act, 2019, the Finance (No.2) Act, 2019, the Taxation Laws (Amendment) Act, 2019 and significant notifications, circulars and press releases upto 30.4.2020 are relevant for November, 2020 examination. The relevant assessment year for November, 2020 examination is A.Y.2020-21.

The October, 2019 edition of the Study Material, comprising of four modules (Modules 1, 2 and 3 on Part I: Direct Tax Laws and Module 4 on Part II: International Taxation), read with the Statutory Update contained in Section A of this RTP is applicable for November, 2020 Examination.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments made by the Finance Act, 2019, Finance (No.2) Act, 2019 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. Thereafter, work out the exercise questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding. Read the case laws given at the end of each chapter under "Significant Select Cases".

Thereafter, 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.

Before you work out the questions in Section B of the RTP, do read the Statutory Update given in Section A, which is very important since it contains the amendments made by the Taxation Laws (Amendment) Act, 2019, notifications, circulars and press release issued upto 30.4.2020 but not covered in the October 2019 edition of the Study Material. The Judicial Update for November, 2020 examination has been webhosted at the

BoS Knowledge Portal. The cases reported therein would be in addition to the significant select cases reported at the end of each chapter in Modules 1 to 3 of the October, 2019 edition of the Study Material.

Note – (1) Extension of dates/due dates and other relaxations vide PIB Press Release dated 24.3.2020/Notification No. 35/2020 dated 24.6.2020 on account of COVID 19 pandemic are **not** applicable for November, 2020 examinations. Further, CBDT Circular No.11/2020 dated 8.5.2020 providing relaxation of residency conditions for P.Y.2019-20 for individuals stranded in India due to COVID-19 lockdown is **not** applicable.

(2) Direct Tax Vivad se Vishwas Act, 2020 and Rules, 2020 are **not** applicable for November, 2020 examination.

PAPER – 8: INDIRECT TAX LAWS

For Paper 8: Indirect Tax Laws, the following are applicable for November 2020 examination:

- (i) The provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2019, which have become effective up to 30th April, 2020*, including significant notifications and circulars issued and other legislative amendments made, up to 30th April 2020.
- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance (No. 2) Act, 2019, including significant notifications and circulars issued and other legislative amendments made, up to 30th April 2020.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of “**Study Guidelines for November 2020 Examination**”. The same is given as part of “**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November, 2020 - Final (New) Examination**” appended at the end of this Revision Test Paper.

**The amendments made by the Finance (No. 2) Act, 2019 in the CGST Act and the IGST Act have become effective from 01.01.2020. However, select amendments made by the Finance (No. 2) Act, 2019 namely, amendments made in sections 2(4), 39, 50, 95, 102, 103, 104, 105 and 106 of the CGST Act and the insertion of new sections 101A, 101B & 101C in the CGST Act have not become effective till 30.04.2020. Therefore, the same are not applicable for November 2020 examinations.*

The subject of Indirect Tax Laws at the Final level is divided into two parts, namely, Part I: Goods and Services Tax for 75 marks and Part II: Customs & Foreign Trade Policy (FTP) for 25 marks.

Students may note that October 2019 Edition of the Study Material** is applicable for Final (New Course) Paper 8: 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 up to 30.04.2019. The amendments made by the notifications and circulars issued between 01.05.2019 and 30.04.2020 in GST laws are given in the Statutory Update web-hosted at the BoS Knowledge Portal on the ICAI's website www.icaai.org.

***It may be noted that in the October 2019 Edition of the Study Material, the erstwhile provisions of the CGST Act and the IGST Act have been compared with the provisions as amended vide the Finance (No.2) Act, 2019, at the end of the relevant Chapters. Therefore, the same are not included in the Statutory Update. Students should read the amended provisions given at the end of the relevant Chapters in place of the erstwhile provisions discussed in the main body of the Chapters.*

However, the amendments which have not become effective till 30.04.2020, as mentioned above, should not be referred to as the same are not applicable for November 2020 examinations. For ease of reference, the Chapters of the Study Material which cover the said amendments (which have not become effective till 30.04.2020) are given below:

Chapter 12: Payment of Tax [Amendment in section 50 of the CGST Act]

Chapter 13: Returns

Chapter 23: Advance Ruling

The content discussed in Part II: Customs & FTP is based on the customs law as amended by the Finance (No. 2) Act, 2019 and significant notifications and circulars issued till 30.04.2019 and the latest amendments are given in **bold and italics** therein. The significant notifications/ circulars issued from 01.05.2019 to 30.04.2020 in Customs & FTP are given in the Statutory Update.

You have to read the Study Material along with the Statutory Update thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your knowledge. Read the case laws given at the end of each chapter under "Significant Select Cases" in module on customs laws.

Thereafter, 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.

PAPER – 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION

*** CASE STUDY***

Competitive Advantage



1. BA is the second largest airline in the Country "X". Aviation industry in the Country "X" is growing fast. In 2011, 45 million people travelled to/ from/ or within the Country "X". By 2020 that doubled to 100 million. This number is expected to treble to 300 million by 2030. Also, by 2025, Country "X" is expected to be the third largest air transport market in the world, behind the US and China.

Government is trying to meet the significant growth potential of aviation Industry. However, it will create challenges also for the airline industry and its industry partners.

Government also wants to ensure that broader business and policy environment should not place hurdles which inhibit growth and reduce the level of benefits that aviation can deliver to the nation. The industry, its supply chain partners, and the government and policy makers have a clear mandate to work in collaboration towards the common goal of ensuring that aviation's economic and social benefits are fulfilled.

Despite of operating in World's fastest growing market BA struggles for passengers. Also, BA is facing following problems:

- Aviation Turbine Fuel (ATF) prices constitute about 40% of operational costs in Country "X" and are taxed higher here than anywhere else in the World. The Central government charges 14% duty on ATF. While the state government pile on their own local tax that can go as high as 29%.
- The currency depreciation is hitting Airline harder. About 25% to 30% of their costs, excluding ATF, are dollar denominated, from aircraft lease rents, maintenance costs to ground handling and parking charges abroad etc.
- With the entry of Low Budget Carriers, full-service carrier like BA that have higher overhead costs have been forced to offer discount to passengers looking for great bargain.
- Continuous improvements in tourism infrastructure, tourism policies, human resources development, airport infrastructure density are among the areas that could further enhance Country "X"'s competitiveness. Ease of doing business over the last five years has risen.

- The intense competition among domestic airlines carriers, the need to capture a slice of the ever-expanding market and passenger price sensitivity makes the airlines difficult to raise ticket prices.

Together, these factors have now plunged Country “X”’s aviation industry to its most precarious phase in the last three years or so.

BA is facing huge competition as a “year of sharp U-turns” for “X”’s aviation industry from record profit in Financial Year 2019-20 to mega losses, resulting in direct need of recapitalisation. BA has been appealing to the government for a decade for a reduction in taxes on fuel, but all in vain. ATF is 35-40% more expensive in Country “X” than in the rest of the world, because of relatively high tax rates.

Required

ADVISE the strategy that BA should follow in order to gain superior performance and competitive advantage over its competitors

*****QUESTIONS*****

Supply Chain Management

2. An apparel manufacturing company has a factory in Ahmedabad, making denim clothing for customers of all ages. It sells its clothing from its factory outlet store located within the city. Until 6 months back, the company had a business model wherein the products manufactured at its factory would be sent to its factory outlet store. Customers would visit the store and choose apparel suiting their tastes. Production was based on prediction of customer demand. This “made to stock” model has been placed for many years.

Few months back, the store manager noticed many customers exiting without making any purchases. Tracking this and after obtaining feedback from customers over sometime, it was found that many products were unacceptable to the customers’ tastes - either the shade or design of denim was not what they wanted or that the apparel was not of the correct fit for them. The management then decided to provide customers a choice of either choosing from their standard apparel range that has already been made (“made to stock” model) or to offer them a “made to order” option.

The company now displays its range of denim material at the factory outlet. Customers can go through the samples and choose the material of their choice. Company certified tailors would then take measurements based on the customers’ preferences. A detailed order customized to the customers’ needs would then be drawn up. The factory has set up a separate tailoring division that would stitch the apparel specifically for these “made to order” sales. For this new machines and production line resources have been put in place.

Customized products are manufactured and be made available to the customer within 3 working days’ time from the date of placing the order. The customer comes to the store and picks up the apparel ordered. For delays beyond this timeline, the customer gets to

PAPER – 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION 3

pay 5% less on the order value. This is done to attract and maintain customers, who would otherwise choose to purchase apparel offered by rival competitors. Therefore, speed of delivery of the customized product is critical for the company. This is the main selling point for the company to operate the “made to order” business model.

If further modifications are needed due to errors on part of the company (quality / finishing issues), the apparel would need to be modified / re-stitched once again. The company will bear the cost of modification or replacement of garment.

This new “made-to-order” has been in place for the past 6 months. At the stage of project proposal, the management found it a lucrative option for the company because:

- (i) Customers are willing to pay a higher price to have customized clothing as compared to the standard fitting.
- (ii) It would attract more customers to the store
- (iii) If the model works well, the dependence on the “made to stock” model can reduce. Savings in inventory stock, obsolescence and warehousing costs will benefit the company’s bottom-line.

Customers have been very enthusiastic in availing this customization facility offered by the company. Sales have increased manifold in the last few months. Therefore, the management is interested to understand the metrics related to their “made to order” business mode to assess its success and risks. Some of the non-financial metrics are:

Metric	Month					
	1	2	3	4	5	6
Orders needing modification on account of errors in order taking or manufacturing process (% of sales orders made under "made to order" model)	15%	12%	10%	8%	5%	4%
Orders delivered beyond the 3 working days timeline (% of sales orders made under "made to order" model)	5%	4%	3%	6%	7%	5%
Production downtime (hours)	44	88	22	141	132	123
Labor idle time due to unavailability of material (hours)	25	22	17	13	24	22
Ratio of "made to order" to total sales from the factory outlet (Ratio of sales value)	16%	22%	25%	32%	34%	38%
Repeat orders by customers availing this facility (% of customers giving repeat order / total customers availing "made to order" facility)	4%	21%	33%	54%	60%	63%

Required

ANALYZE the non-financial measures of quality of the division over the six-month period. Focus on the production performance, delivery cycle performance and customer satisfaction.

Value Chain Analysis

3. X is a leading toy manufacturing firm. Having commenced its commercial operations in the year 1990, the firm has a state-of-the-art manufacturing facility in India. It sells toys through retail outlets and the firm's website. X has been pioneering the concepts of quality and safety in toys and has been instrumental in raising the quality standards of toys in the Indian Market.

X's mission is to influence parents to spend on toys that enable every child to grow with quality toys that contributes to his/ her wholesome development.

X procures the materials from a number of different suppliers. All of the purchased material are dispatched to its warehouse located at its factory and are held there unless they are moved to production. After production is completed, finished toys are moved to X's retail outlets by its own vehicles. Each week, the vehicles follow the same time schedule regardless of the weight they are carrying. Finished toys that are sold through the X's website are dispatched to its distribution centre.

X has recently got the contract to manufacture a new toy that is 'Ty-Z', a mini cartoon based on a character from a famous international animated film. X has not been given any target price, hence is free to set the selling price of 'Ty-Z', however, must pay a royalty of 10% of the selling price to the film director. X is also planning to sell 'Ty-Z' through its retail outlets.

X has decided to follow a target costing technique for 'Ty-Z'. Marketing manager has determined the selling price to be around ₹1,750 per 'Ty-Z'. X needs a margin of 26% of the selling price of 'Ty-Z'.

For the estimated costs per 'Ty-Z' refer Annexure.

Required

DISCUSS three primary activities of value chain through which X can minimise gap if any.

Annexure
Estimated Costs per 'Ty-Z'

	₹
Material C	150.50
Material D	122.50
Other Material	see note below
Labour (0.4 hours at ₹1,050 per hour)	420.00
'Ty-Z'- specific production overhead cost	132.30
'Ty-Z'- specific selling and distribution cost	166.60
Note- Each 'Ty-Z' requires 0.70 kg of 'other materials'. These 'other materials' are procured from a supplier at a cost of ₹280 per kg and around 5% of all purchased materials are found to be downgraded.	

Theory of Constraints

4. ZED produces two types of products Z and D at its manufacturing plant. Both the products are produced using the same materials, machinery, and skilled labour. Machine hours available for the year is 4,000 hours.

Information relating to products are as follows:

Particulars	Z	D
Selling Price <i>per unit</i>	₹16,000	₹4,000
Material Costs <i>per unit</i>	₹7,000	₹1,200
Machine Hours <i>per unit</i>	1.6 hrs.	0.8 hrs.
Maximum Annual Demand	2,000 units	1,600 units
Online Booking (already accepted for)	400 units	1,200 units

Due to poor productivity levels, late order and declining profits over recent years, the CEO has suggested the introduction of throughput accounting in the company.

The total of all factory costs is ₹1,42,60,000, excluding material.

Required

- Using throughput accounting, PREPARE statement to determine the optimum production mix and maximum profit for the next year.
- CALCULATE the amount of profit lost due to acceptance of online booking of the products.
- RECOMMEND the options to be followed in order to avoid any loss of profit.
- LIST various ways through which price customization could be done.
- Given that products Z and D are respectively in 'maturity stage' and 'introduction stage' of their life cycle. STATE the most appropriate pricing policy that could be followed by the ZED for Z and D as per their life cycle.

Ethical and Non-Financial Considerations

5. ABC Limited specializes in the manufacture of chemical intermediaries in a very competitive business environment. ABC is a public listed company, with majority of its shareholders being institutional investors like mutual funds, banks and insurance companies.

It is located in a water scarce zone in Tamil Nadu. There are restrictions on the tapping and usage of groundwater under the relevant laws. Penal provisions of the law will apply in case of violations. The production process requires water and the amount of water that the company can draw is limited to 19,000 kilo-litres (1 Kilo-litre is 1,000 litres). Purchase of water is not an option as availability is highly erratic and exorbitant on cost.

The company manufactures two types of chemicals "A" and "B" and these are sold in kilograms. The company is in the process of making the business plan for the year 2021.

Based on the actual operating data for 2020 and taking into consideration the inflation and possible price increases that it can obtain from the market, the following product costing details have been arrived at:

Product	A	B
Capacity Volume kg. (not inter-changeable)	8,25,000	9,30,000
Selling Price per kg.	₹2,000	₹1,000
Variable Cost per kg.	₹1,500	₹650
Water (litre/ kg.)	12.5	10

Under the relevant income tax laws prevalent, companies with a turnover of ₹250 Cr. (Crores) or less are taxed at a lower rate of 25% as against the normal 30%. The company intends to keep its sales for 2021 equal to ₹250 Cr. or slightly lesser to avail this concessional income tax benefit.

With capacity constraints, the company has calculated that it would be still beneficial for the company to stick to ₹250 Cr. as only a marginal increase in turnover is possible over ₹250 Cr.; after a higher tax @30%, the PAT would be still lower than the PAT arrived at after doing just ₹250 Cr. and availing the lower income tax rate.

CFO asked management consultant to work out the volumes in kg. of products "A" and "B" which would give an optimal (maximum) contribution given the constraints on capacity, water usage and turnover to avail the concessional income tax benefit.

Consultant work out with the following product mix using Linear Programming. She also proposes another mix which does not meet the constraint on water usage where the company could end up drawing excess water than permitted by 113 kilo-litres but would result in an increase of ₹30 lacs in contribution. She says that it is easily possible to do this by managing reporting to the water authorities.

Product		Optimal	Suggested
A (Volume in kg.)		8,00,000	7,85,000
B (Volume in kg.)		9,00,000	9,30,000
Contribution in ₹Cr.		71.5	71.8
	Constraints		
Sales	<= 250 Cr.	250	250
Volume of "A" in kg.	<= 8,25,000	8,00,000	7,85,000
Volume of "B" in kg.	<= 9,30,000	9,00,000	9,30,000
Water usage (in KL)	<= 19,000	19,000	19,113

Required

The CFO is not satisfied with the calculations. He wants you (Sr. Finance Manager) to come up with a proper DISCUSSION.

Direct Product Profitability (DPP)

6. Quebec Ornamental Company (OOC) has been a name to count on for quality and service. It has been designing wide range of ornamental products for more than two decades using the highest-quality standard. Such quality is achieved through years of experience and the integrity that is maintained by its employees. They are known for their perfection. WIK approached OOC to make inquiry of two products. The two products are indoor fountain known as 'O-1' and a large gnome known as 'O-2' for garden. Mr. X, the management accountant of OOC, has estimated the variable costs per unit of 'O-1' and 'O-2' as being ₹622.50 and ₹103.75 respectively. He estimated his calculations based on the following information:

- (1) Products Data

	O-1	O-2	Other Products
Production/ Sales (units)	10,000	20,000	80,000
Total Direct Material Costs	₹22,50,000	₹7,50,000	₹60,00,000
Total Direct Labour Cost	₹15,00,000	₹5,00,000	₹60,00,000

- (2) Total variable overheads for OOC are ₹1,20,00,000 out of which 30% belong to the procurement, warehousing and use of direct materials. While all other variable overheads are related to direct labour
- (3) OOC presently allocate variable overheads into products units using percentage of total direct material cost and total direct labour cost.
- (4) WIK is willing to purchase 'O-1' at ₹740 per unit and 'O-2' at ₹151 per unit.
- (5) OOC will not accept any work yielding an estimated contribution to sales ratio less than 28%.

The directors of OOC are considering switching to an activity-based costing system and recently appointed a management consultants firm to undertake an in-depth review of existing operations. As result of that review, the consultants concluded that estimated relevant cost drivers for material and labour related overhead costs attributable to 'O-1' and 'O-2' are as follows:

	O-1	O-2	Other Products
Direct Material Related Overheads: (The volume of raw materials held to facilitate production of each product is the cost driver.)			
Material Ratio <i>per product unit</i>	5	8	5
Direct Labour related overheads: (The number of labour operations performed is the cost driver.)			
Labour Operations <i>per product unit</i>	7	6	5

Required

- Give a financial ANALYSIS of the decision strategy which OOC may implement about the manufacture of each product using the unit cost information available.
- DISCUSS whether activity-based management should be adopted in companies like OOC.

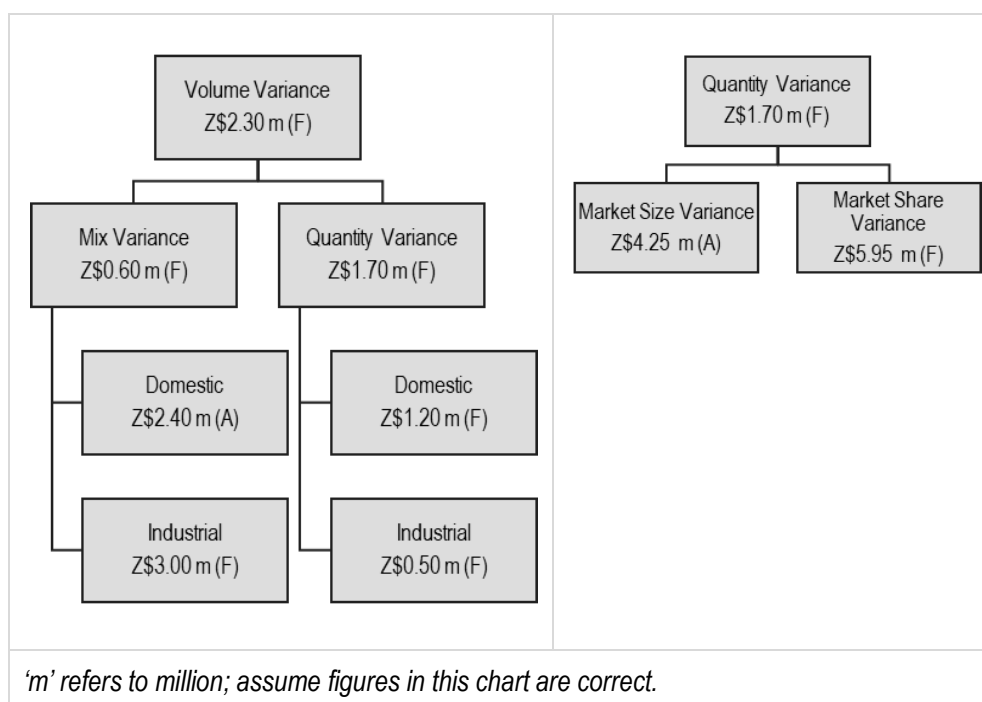
Standard Costing

- ZM Inc. is a family run business based in Country Z. It is a manufacturer of two types of flooring rolls, one for industrial usage and the other for domestic residential use, throughout mainland of Country Z. The company started with the production of residential domestic flooring. It is now an established player in this market. In the recent years, the company pioneered into making flooring rolls for industrial usage. The management has the following information about the budgeted and actual data for 2020-

Particulars	Static Budget			Actual Result		
	Industrial	Domestic	Total	Industrial	Domestic	Total
Unit Sales in Rolls ('000)	200	600	800	270	570	840
Contribution Margin (Z\$ in millions)	10.00	24.00	34.00	12.825	15.390	28.215

In late 2019, a marketing research estimated market volume for industrial and domestic flooring at 8 m Rolls. Actual market volume for 2020 was 7 m Rolls. Actual sales trend of ZM Inc. is indicative of the sales trends for individual products in the future years, it is likely that they might continue to sell a similar sales trajectory.

A newly appointed accountant has computed following variances from the above data:

**Required**

Assuming yourself as a performance management expert of ZM, the CEO has asked you to:

- (i) ANALYSE the variances computed by the accountant;
- (ii) ADVISE strategic inputs on 'two types of flooring rolls' to help out her in strategic decision making.

Non- Financial Performance Measures

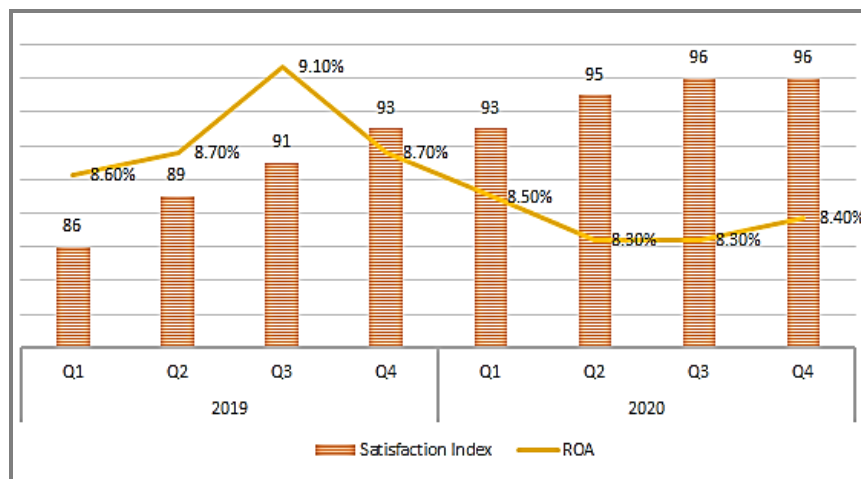
8. Kristin LLP sells wide range of household products. The firm has recently received few negative feedbacks about the product and customer services. CEO is not happy with this. As per the opinion of CEO –

"Nowadays when social media play such an important role in making decisions, its crucial to keep an eye on the quality of customer service you provide. If you don't care about customers' satisfaction, don't expect them to care about your services or products. When customer share their story, they're not just sharing their problems. They are actually teaching you how to make your product, service, and business better."

There has been considerable discussion at the corporate level as to improve 'Customer Satisfaction'. Convinced with this logic, firm has invested heavily in customer satisfaction and adopted the following plan of action–

- providing helpline 24/7 in order to develop personal relationship with customer ;
- redesign its online platform in order to make it more customer friendly ;
- rewarding loyal customers by giving them experience, they would not forget for life; and
- ease the return and refund policy, offering no questions- asked guarantee is a smart move over competitors.

The CEO was initially delighted to see that their efforts pay off in the form of higher customer satisfaction score index, however he is anxious to see the corresponding financial results.



Required

Does the seeming lack of improvement in financial performance with customer satisfaction, Kristen LLP should stop investing a superior customer experience? DISCUSS.

Performance Measurement in Not for Profit Sector

- Olderhelp India is a leading charity working with and for the disadvantaged elderly for over 5 decades. Olderhelp advocates for their needs for universal pension, quality healthcare, action against elder abuse and many more. Olderhelp collects donations and funds and utilises them for the welfare of elders. The governing body of Olderhelp has setup four performance objectives for the three months to 30 Sep 2020:
 - to achieve a level of donation of ₹30,00,000
 - to keep advertisement cost not more than 3% of donation
 - to keep welfare cost more than 85% of donation
 - to achieve 90% of respite care requested from the community

PAPER – 5: STRATEGIC COST MANAGEMENT AND PERFORMANCE EVALUATION 11

Actual results were as follows:

	July	Aug	Sep
Donation (₹)	7,00,000	13,00,000	11,00,000
Advertisement Costs (₹)	17,500	52,000	33,000
Elder's welfare cost (₹)	5,74,000	10,92,000	979,000
Respite care requests (days)	1,120	1,140	1,200
Respite care provided (days)	896	1,003	1,104

The aim is to serve elder needs in a holistic manner, enabling them to live active, dignified and healthier lives.

Requirement

PREPARE a statement to assist the manager in evaluation performance against objectives and COMMENT on the performance.

Competitive Advantage

10. The following are the income statements of two firms in the same industry.

	Firm WD (₹)	Firm WG (₹)
Revenues	20,00,000	40,00,000
Less: Variable costs	9,00,000	24,00,000
Contribution margin	11,00,000	16,00,000
Less: Fixed costs	7,00,000	12,00,000
Profit before taxes	4,00,000	4,00,000

Required

IDENTIFY the strategy (cost leadership vs. differentiation) followed by two firms. JUSTIFY your classification.

SUGGESTED ANSWERS/HINTS

1. In consideration to Michael Porter's theory about creating a superior performance and competitive advantage, a firm's overall competitive advantage derives from the difference between the *value it offers to customer* and its *cost of creating that customer value*. In order to survive and prosper in industry, firm must meet two criteria– they *must supply what customers want* to buy and they *must survive competition*.

To attain superior performance and attain competitive advantage, firm must have *distinctive competencies*. Distinctive competencies can take any of the following two forms:

Relative low-Cost advantage– under which customers gain when a firm's total costs undercut those of its average competitor.

An offering or differentiation advantage– If customer perceive a product or service as superior, they become more willing to pay a premium price relative to the price they will have to pay for competing offerings.

Low Cost Advantage (Cost Leadership)

BA can enjoy relative cost advantage if its total costs are lower than those of its competitors. This relative cost advantage enables a business to do one of the following:

- Charge a lower price than its competitors for its services to gain market share and still maintain current profitability; or
- Match with the price of competing services and increase its profitability.

Cost reductions in BA can be achieved through yield management with variable pricing depending on capacity utilization with careful monitoring; application of computer and communication technology in cost effective way i.e. selling seats via the internet rather than through travel agents; trimming overhead costs by using lower cost out-of-town airports, no printed tickets, seat allocations, or free meals and drinks; efficient operations i.e. fast turnaround times for aircraft to improve utilization; and no exceptions policies to reduce the cost of handling exceptions (e.g. no flexibility for passengers who arrive late). Cost economies can also be realized from large scale operations. However, it is important to note that as soon as more firms strive to become the cost leader, rivalry become so fierce that the consequences for the profitability in the industry are disastrous.

Differentiation Advantage

It occurs when customers perceive that a business services offering is of higher quality, involves fewer risks and/or outperform services offered by competitors. In other words, customers perceive the service offered by a business to be superior. For example, differentiation may include a firm's ability to deliver services, and other factors that provide unique customer value. BA is a multinational passenger airline. It can adopt a differentiation approach by offering passengers a higher-quality experience than many of its rivals. This allows it to charge a premium for its flights compared to many other airlines.

A differentiation advantage can be achieved by offering enhanced features such as prime landing slots can be obtained at major airports around the world; using superior and advance technology; well-maintained, clean, and comfortable aircraft; training in customer care and the recruitment of high-quality staff; providing complementary

services such as in-flight entertainment, high-quality food, and drink. Customer value can also be increased by *subjective features* such as brand image, advertising based on quality of service provided. However, differentiator cannot ignore its cost position. If costs are too high the premium price are nullified.

On successfully differentiated its offering, management of BA may exploit the advantage in one of two ways viz., either increase price until it just offsets the cost of improvement in customer benefits, thus *maintaining* current market share; or price below the “full premium” level to *build* market share.

Alternatively, BA may focus on geographical region and short point to point flights to reduce costs. Michael Porter enlightens focus as attaining low cost or product differentiation for a *particular* buyer group, segment of product line, or geographic market rather than for the industry as a whole. The focuser can attain competitive advantage within a niche, because large firms are either not attracted to niche or have ignored the potential. The narrow focus in itself though is not adequate for a competitive advantage. The firms need to optimize the strategy on two variants: cost focus and differentiation focus. One risk of a ‘focus strategy’ is that broadly targeted competitors devastate the segment once it becomes economically attractive.

In addition, the currency depreciation is hitting Airlines harder and international overhead costs have risen, the BA should attempt to increase the number of internal domestic flights. Moreover, ATF cost can also be lowered by investment in fuel saving modern Airbuses, however, the reduction in operating costs may outweigh the capital equipment costs.

To gain competitive advantage BA may also assess Value Shop Model. Value Shop generates value by organizing resources (e.g. people, knowledge, and skills) and deploying them to solve specific problems, for example, delivering airline services to the passengers or delivering a solution to the business problem. Shops are organized around making executing decisions- identifying and assessing problems or opportunities, developing alternative solutions or approaches, choosing one, executing it and evaluating results.

In this way, the above discussed strategies may be more appropriate for helping BA in achieving superior performance and competitive advantage over its competitors.

Concept in Practice

Southwest Airlines (SA) targeted on a geographic region and short point-to-point flights to reduce costs. Even though it offered no-frills service (no-frills or no frills service is one for which the non-essential features like food, entertainment, printing of boarding pass etc. have been removed to keep the price low) and was based in secondary airports, SA improved quality relative to the *limited set of competing alternatives* by offering direct flights rather than connecting flights requiring changing planes at large hub airports. The SA also offered better on-time performance and friendly amenities.

2. Analysis of the operating data of the “made to order” at the business store revealed the following:

Production Performance:

- (i) Modifications to orders: This company has to bear the cost of modification / replacement of the garment incurred on account of error in its order taking or manufacturing process. Therefore, orders needing such modification should be kept at the minimum. Such instances were higher than 10% in the first three months. With experience, either in the order taking process or manufacturing process, these errors have reduced substantially in the later months. The managers of the order taking and manufacturing departments need to understand and constantly keep track of these errors in order to keep them at a bare minimum. Management may want to set a benchmark, financially in terms of the cost of modification and non-financially in terms of the acceptable threshold for such instances. Monthly tracking of this metric will help detection of errors earlier.
- (ii) Production downtime: Production downtime normally occurs either due to break down of machinery or plant maintenance. It is unproductive time, reducing the machine’s capacity. It must be kept minimum. Downtime hours have been steadily increasing in the past 3 months, the overall monthly average being 91.67 hours. The production manager has to analyze and take corrective action at the earliest. Urgency of the issue can be compounded by the fact that sales orders under the “make to order” model have been increasing steadily over the last few months. In the latest month, 38% of the overall sales was from this model. Therefore, the production capacity should be utilized optimally to ensure ability to meet delivery deadlines.
- (iii) Labor Idle time: Labor Idle time due to unavailability of material is another unproductive waste of resource. The procurement department can address unavailability of material. On an average 20.5 hours of labor time is idle due to unavailability of the appropriate material. Appropriate steps with suppliers can lead to agreements to ensure seamless supply of material when required. This will enable the company to meet delivery deadlines given to customers.

Delivery Cycle Performance:

- (i) On-time delivery: The orders need to be delivered to the store within 3 working days of placing order. The customer picks up the order from the store. Speed of delivery is critical to the company. Any delay beyond this timeline, the customer benefits by a 5% reduced price on the order as compensation for delay. Prompt delivery is also the company’s selling point to attract customers, who would otherwise patronize its rivals. On an average 5% of the orders are not delivered within time. Therefore, average delivery success rate is only 95%. The management has to take steps that this is kept to the minimum in order not to stem loss of revenue as also to build brand loyalty with the customer base.

Customer Satisfaction:

- (i) Repeat orders by customers: Prompt, quality delivery of the customized order would ensure that customers return in future with further orders. Statistics shows that repeat orders have steadily increased, which is a very positive signal to the management. Initially, only 4% of the customers under this model placed repeat orders. This increased substantially. Now almost 63% of the customers who purchase under this model come back with more orders!
- (ii) Sales mix: Popularity among customers for customized services is further validated by the steady increase in the ratio of such sales to the overall sales of the company from the factory outlet. Now, this model generates an average of 28% of the total sales from the outlet, with a likely projection of having a higher share in the overall sales mix. Therefore, the “make to order” model can be termed a success.

Workings

Metric	Month						Monthly Average
	1	2	3	4	5	6	
Production performance							
Orders needing modification on account of errors in order taking or manufacturing process (% of sales orders made under "made to order" model)	15%	12%	10%	8%	5%	4%	9%
Production downtime (hours)	44	88	22	141	132	123	91.67
Labor idle time due to unavailability of material (hours)	25	22	17	13	24	22	20.50
Delivery cycle time							
Orders delivered beyond the 3 working days timeline (% of sales orders made under "made to order" model)	5%	4%	3%	6%	7%	5%	5%
Customer satisfaction							
Repeat orders by customers availing this facility (% of customers giving repeat order / total customers availing "made to order" facility)	4%	21%	33%	54%	60%	63%	39.17%
Ratio of "made to order" to total sales from the factory outlet (Ratio of sales value)	16%	22%	25%	32%	34%	38%	28%

3. In case of X, there is a **cost gap of Rs. 78.22**. Where a gap exists between the *current estimated cost levels* and the *target cost*, it is essential that this gap be closed. Cost gap

can be removed by **reducing the cost over all the Value Chain** through the development of the spirit co-operation and understanding among all members of organizations associated with the product from suppliers, producers, customers, agents and service providers.

In Xs Value Chain, three primary activities are:-

Inbound logistics

These are activities concerned with receiving, storing and distributing the inputs (raw material) to the production process. The *relationship with supplier* is a key component in this process. Currently, X procures materials from multiple suppliers and stores these materials in its store. **Shifting to a just-in-time (JIT) system technique** in procurement of materials could possibly save substantial storage costs provided the JIT supplier must agree to take the responsibility for the good quality of materials supplied. This will also become a source of savings because downgraded items will be removed. However, X might have to pay additional payout to a supplier for JIT purchasing to work.

Outbound logistics

These activities involve collecting, storing and distributing the products to the customers. At X, scheduled transportation of toys to retail outlets is outbound logistics activity. Potentially, the scheduled transportation of toys to retail outlets every week is not an efficient way. Such deliveries do not consider whether toy is required at retail outlets or not, hence X may possibly deliver toys to retail outlets those do not need toys and suffer unnecessary transportation costs.

X should plan to **implement EDI system** that will help it to improve warehousing and logistics by automatically tracking inbound shipments as well as outbound products. Adopting EDI, X can not only improve processes but also streamline inventory management across many channels. However, it will require setup time and a learning curve to implement the same.

Marketing and sales

Marketing and sales provide the means by which the customers are made aware of the product. At X, the sales of toys via its retail outlets and website are marketing and sales activities.

X is planning to sell 'Ty-Z' via retailers. If X **sales 'Ty-Z' through its website** rather than through retail outlet, significant cost could easily be avoided. Simultaneously, X will be able to expose itself to **attract international customers** to buy 'Ty-Z' as product is based on character from a famous international animated film.

Overall, X may create a *cost advantage* by **reconfiguring** the Value Chain. Reconfiguration means structural changes such a new production process, new distribution channels or a different sales approach as discussed above.

Workings**Statement Showing Computation of Cost GAP**

	₹
Sales Price	1,750.00
Less: Royalty @10%	175.00
Less: Profit @26%	455.00
Target Cost 'Ty-Z'	1,120.00
Material C	150.50
Material D	122.50
Labour (0.40 hours at ₹1,050 per hour)	420.00
Other Material (0.70 kg × ₹280 per kg) / 0.95	206.32
Production Overheads Cost	132.30
Distribution and Sales Cost	166.60
Estimated Cost 'Ty-Z'	1,198.22
Cost Gap	78.22

4. (i) Statement Showing Machine Hours

Product	Maximum Demand	Machine Hours/ Unit	Total Machine Hours
Z	2,000 units	1.6	3,200
D	1,600 units	0.8	1,280
Total machine hours required to meet maximum demand			4,480
Machine hours available			4,000
Shortage of machine hours			480

'Machine hours' is the bottleneck activity.

Statement of Ranking

Particulars	Z	D
Selling Price <i>per unit</i>	₹16,000	₹4,000
Less: Material Costs <i>per unit</i>	₹7,000	₹1,200
Throughput <i>per unit</i>	₹9,000	₹2,800
Machine Hour Required <i>per unit</i>	1.6	0.8

Throughput Return <i>per hour</i>	$\frac{₹9,000}{1.6}$ = ₹5,625	$\frac{₹2,800}{0.8}$ = ₹3,500
Throughput Accounting (TA) Ratio (throughput return per hour/ cost per factory hour)	$\frac{5,625}{3,565}$ =1.58	$\frac{3,500}{3,565}$ =0.98
Ranking	I	II

Cost per factory hour = ₹1,42,60,000/ 4,000 hrs. = ₹3,565

Optimum Production Plan

Product	No of units	Machine hr. per unit	Total Machine hrs.	T/P per hr. ₹	Total T/P ₹
Z (online orders)	400	1.6	640	5,625	36,00,000
D (online orders)	1,200	0.8	960	3,500	33,60,000
Z	$\frac{2,400}{1.6}$ =1,500	1.6	2,400 (b/f)	5,625	1,35,00,000
Total					2,04,60,000
Less: Total Factory Costs					1,42,60,000
Profit					62,00,000

- (ii) Had there been no online booking first product Z should be produced = 2,000 units using 3,200 machine hours (2,000 × 1.6). Because of online booking already accepted for 1,200 units of product D, unfulfilled demand of product Z = 2,000 - 1,900 = 100 units.

Machine Hrs. Required for 100 units of Z (100 × 1.6)	160 hrs.
Throughput Lost for Product Z (160 hrs. × 5,625)	₹9,00,000
Throughput Return Earned for Product D (160 hrs. × 3,500)	₹5,60,000
Throughput lost	₹3,40,000

(iii) Recommendation

Option-1

Throughput accounting ratio is the throughput return earned in an hour divided by the factory cost (labour and overheads) incurred by the factory in one hour. Factory cost is generally fixed in nature. A ratio above 1 signifies that the throughput return is greater than the factory cost and therefore the product is profitable. Product Z has a throughput accounting ratio of 1.58 while Product D has a throughput accounting ratio of 0.98, this indicates that hourly return from Product A can cover the hourly factory cost,, it is profitable. Product D does not yield enough hourly

return to cover the hourly factory cost, it is not profitable. Therefore, ZED should consider ways of **improving throughput accounting ratio of Product D (i.e. above 1.0)**. TA ratio could be improved by:

- Increasing the selling price of the Product D but the demand may fall.
- Reducing the material cost per unit as well as operating costs. However, there may be quality issues.
- Improving efficiency e.g. increase number of units that are made in each bottleneck hour.
- Raising up bottleneck so that more hours are available of bottleneck resource.

Option-2

ZED has to **prioritize production of Product Z** since it is more profitable than Product D. As per the throughput accounting ratio, Product D does not yield sufficient return per hour to cover the hourly overhead cost therefore, gets second priority over Product Z.

Since machine hours are the bottleneck, if production for entire 4,000 hours is focused on Product Z, return yielded would be sufficient to cover the factory overheads. However, Product Z has a maximum demand of 2,000 units, that requires 3,200 machine hours (2,000 units × 1.6 hours per unit of production). Remaining 800 machine hours can be devoted to Product D, during which 1,000 units can be produced (800 machine hours / 0.8 hours per unit). Maximum demand for Product D is 1,600 units. Therefore, the balance demand of 600 units of Product D will remain unsatisfied.

However, to meet unsatisfied demand of Product D, ZED may consider the **option of sub-contracting either a part of whole of the production of Product D**. This way it can meet the entire demand for Product D for 1,600 units. If it subcontracts the entire production of Product D, it can also scale down its in-house capacity. Sub-contracting decision requires suitable cost benefit analysis. Moreover, the risk associated with outsourcing like unsatisfactory quality and service or failure of supplier cannot be ignored.

Overall, to enhance profitability or avoid any type of loss of profit, ZED may consider the options recommended above with a *long term perspective*.

- (iv) Pricing of a product is sometimes customized keeping taste, preference, and perceived value of a customer into consideration. Price customization is done in the following ways:

- *Based on product line*: When products are customized as per the customer's requirements, pricing can be adapted based on the customer's specifications.

Standard products can have a base price, to which the company can top-up charges to any additional customization.

- *Based on customer's past behavior:* Customers with good payment record have established their credit-worthiness. To sustain business, they may be extended additional discounts as compared to other customers.
- *Based on demographics:* Different pricing strategies may be adopted based on age or social status. For example, railway fare discounts for senior citizens or concessional price tickets for military personnel.
- *Based on time differential:* Different price for different time periods. If a customer extends a long-term contract, an additional discount may be extended since business is contracted for a longer period of time. Example, discounted price for data usage provided by a broadband service provider if subscription paid for six months or more.

Apart from the above accounting principles, other macro economic and legal factors should also be given importance while chalking out a pricing strategy.

- (v) The life-cycle of a product has 4 stages namely Introductory stage, Growth stage, Maturity stage and Decline stage.

Product Z is given to be in the maturity stage. This third stage of product life cycle is characterized by an established market for the product. After rapid growth in sale volume in the previous stages, growth of sales for the product will saturate. Competition would be high due to large number of rivals in the market, this may lead to decreasing market share. Unit selling price may remain constant since the market is well established. Occasional offers may be used to tempt customers, otherwise this stage will mark consolidation of the market.

Product D is in the introduction stage, the first stage of product life cycle. Penetration pricing is adopted to charge a low price in the initial stage for penetrating the market as quickly as possible. For a new product this low price strategy will popularize the product. Once the market is established, the price may be increased. Penetration pricing will be suitable when:

- (i) Demand for the product is elastic, more demand when prices are low.
- (ii) Large scale production of the product yields economies of scale.
- (iii) Threat of competition requires prices to be set low. It serves as an entry barrier to prospective competitors as well.

However, if Product D is a highly innovative product, it may adopt Skimming price policy. The product with unique features will differentiate it from other products leading to a revolutionary impact on market and customer behavior. Customers may

not mind paying a premium for the unique product offering. Focus may be on promoting the product to gain market share. Skimming price policy may work when:

- (i) There seem to be no competitors providing similar products.
- (ii) Demand is inelastic.

Over time, competitors can reverse engineer and offer similar products. Therefore, the price may be lowered in the long run to retain market share.

5. Primary goal of investor –owned firms is shareholder wealth maximisation, which translates to stock price maximisation. Management Consultant's plan is looking good for the ABC as there is a positive impact on the profitability (₹30 lacs) of the company. Also, ABC operates in a competitive environment so for its survival, it has to work on plans like above.

There is second side of coin that cannot also be ignored i.e. **business ethics**. It is easily possible to manage drawing of excess water, but it is not an ethical practice as the company has *responsibilities towards* use of natural resources like water and protecting the environment.

Besides, a whistle-blower complaint to the water authorities can land the company into trouble in terms of penalties, *a financial impact* and also such penalties are disallowed for income tax purposes. It is possible that such a violation may be reported in the media causing *disrepute to the name* of the company. It can also make *investors* in the share market stay away from the company as it has ethical governance issues. The company will face challenges in obtaining other *government approvals* when it will plan expansion as this violation may have to be reported on the applications seeking approvals.

Overall

May be ABC would able to earn profit due to this plan in *short run* but it will tarnish the image of the ABC which would hurt profitability in *long run*. Therefore, before taking any decision on this plan, ABC should analyse both qualitative and qualitative factors.

6. (i) **Analysis**

The product costs per unit along with the respective contribution per unit may be calculated either by employing an ABC approach or alternatively by using the existing basis for the allocation of variable overhead cost.

The current scenario of product costing suggests that 'O-2' should be produced as per the request of WIK because the contribution to sales ratio is 31.29%. However, the current scenario of product costing also suggests that OOC should not undertake production of 'O-1' at a selling price of ₹740 per unit since the estimated contribution to sales ratio is 15.88% is lower than the desired contribution to sales ratio of 28%.

Activity based costing approach ensures greater accuracy by using multiple cost drivers and determines areas generating the greatest profit or loss. Table [(d)] shows how much the contribution to sales (%) for each product changes when the overhead allocation method changes to ABC. As shown in Table, contribution to sales ratio on 'O-1' increased to 31.87% from 15.88% while contribution to sales ratio on 'O-2' reduced from 31.87% to - 29.23%.

Thus, OOC should opt to produce 'O-1' for WIK as contribution to sales ratio is 31.87 which is higher than the desired one.

- (ii) The term Activity based management (ABM) is used to describe the cost management application of ABC. The use of ABC as a costing tool to manage costs at activity level is known as Activity Based Cost Management (ABM). ABM is a discipline that focuses on the efficient and effective management of activities as the route to continuously improving the value received by customers and to improve strategic and operational decisions in an organisation. Kaplan and Cooper divide ABM into Operational and Strategic.

Operational ABM covers the actions that increase efficiency, lower cost (i.e. reduce the cost driver rate of activities) and lead to higher revenue through better resources utilisation- in short, the action required to do things right. In other words, it is all about '*doing things right*', using ABC information to improve efficiency. It also helps in identifying and improving value added activities and removing non-value added activities as to reduce cost without distorting product value.

Strategic ABM is about '*doing the right things*'. It uses ABC information to determine which products is to be manufactured and which activities is to be used. OOC can also use this for customer profitability analysis, identifying that which customers are the most profitable and focusing on them more.

A risk with ABM is that some activities have an implicit value are not reflected in a financial value added to any product. For example, a good and pleasant working environment can attract and retain the best human resources, but might not be identified as value added activities in operational ABM.

ABM provides managers an understanding of costs and helps teams to make certain decisions that benefit the whole organizations and not just their own activities.

Therefore, some companies like OOC may adopt ABM to improve their operations and obtain useful activity information.

Workings**(a) Direct Material Cost per unit**

	O-1	O-2
Total Costs (₹)	22,50,000	750,000
Production units	10,000	20,000
Cost per unit (₹)	225.00	37.50

(b) Direct Labour Cost per unit

	O-1	O-2
Total Costs (₹)	15,00,000	5,00,000
Production units	10,000	20,000
Cost per unit (₹)	150.00	25.00

(c) Variable OverheadsMaterial Related

Overhead Cost = 30% × ₹120,00,000 = ₹36,00,000

Total Volume Factor

Particulars	Units	Required per unit	Total Volume
O-1	10,000	5	50,000
O-2	20,000	8	1,60,000
Other	80,000	5	4,00,000
Total Volume Factor			6,10,000

Overhead *per unit of volume* = ₹36,00,000 / 6,10,000 = ₹5.90.

Therefore, Overhead Cost *per product unit* will be as follows:

O-1	5	₹5.90	29.50
O-2	8	₹5.90	47.20

Labour Related

Overhead Cost = 70% × ₹120,00,000 = ₹84,00,000

Total Operations Factor

Particulars	Units	Required per unit	Total Volume
O-1	10,000	7	70,000

O-2	20,000	6	1,20,000
Other	80,000	5	4,00,000
Total Operations Factor			5,90,000

Overhead per operation = ₹84,00,000 / 5,90,000 = ₹14.24.

Therefore, Overhead Cost per product unit will be as follows:

O-1	7	₹14.24	99.68
O-2	6	₹14.24	85.44

(d) **Product Information** (by unit) is as follows:

Particulars	O-1		O-2	
	Current Scenario	ABC Basis	Current Scenario	ABC Basis
Selling Price ... (A)	740.00	740.00	151.00	151.00
Direct Material Cost	225.00	225.00	37.50	37.50
Direct Labour Cost	150.00	150.00	25.00	25.00
Variable Overhead Cost:				
Material Related	90.00	29.50	15.00	47.20
Labour Related	157.50	99.68	26.25	85.44
Total Variable Cost ... (B)	622.50	504.18	103.75	195.14
Contribution ... (A) - (B)	117.50	235.82	47.25	(44.14)
Contribution to Sales (%)	15.88	31.87	31.29	(29.23)



Total Variable Overheads are 120L. Out of which 30% i.e. 36L relates to material and 70% i.e. 84L relates to Labour. Now allocate variable overheads into product units using % of total direct material cost and total direct labour cost.

VO Material Related 40% of Material Cost
 ₹{36L / (22.5L + 7.5L + 60L)}

VO Labour Related 105% of Labour Cost
 ₹{84L / (15L + 5L + 60L)}

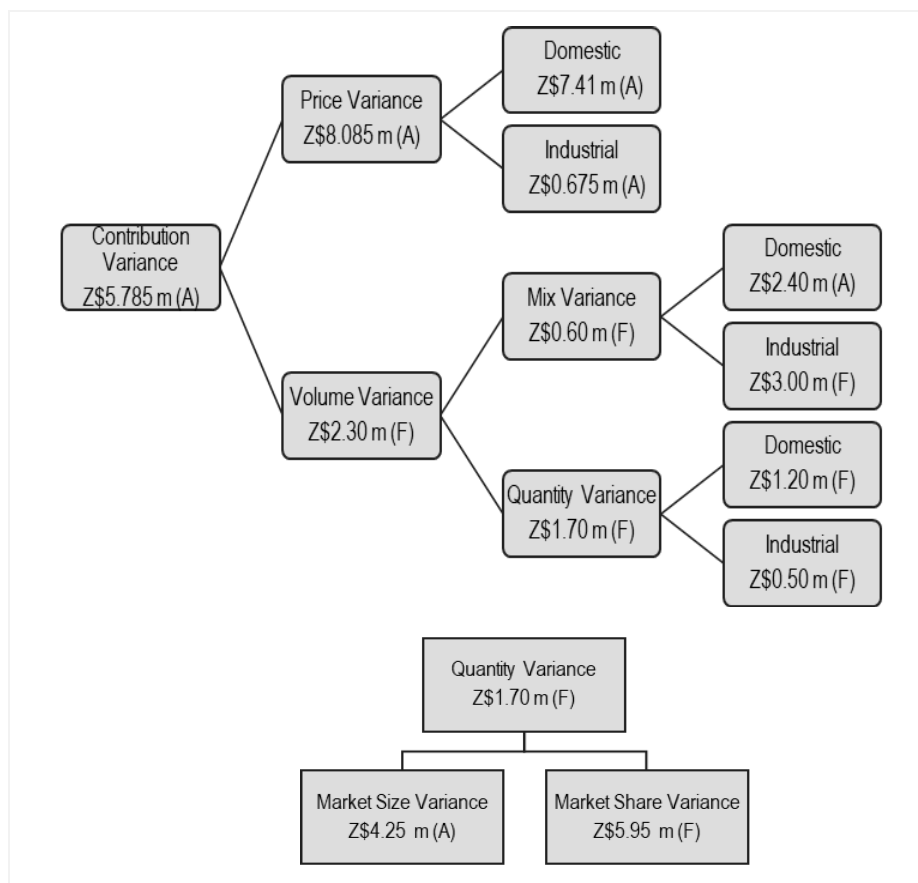
O-1 & O-2

VO Material Related ₹90 = 40% of ₹225;
 ₹15 = 40% of ₹37.5

VO Labour Related ₹157.5 = 105% of ₹150;
 ₹26.25 = 105% of ₹25

7. (i) Analysis of Variances

It can be seen that total unit sales increased by 40,000 rolls resulted in a favorable volume variance. Therefore, a potential increase of Z\$2.3 m in contribution margin was achieved as a result of change in sales volume compared with budgeted volume. The volume variance is further divided into a mix and quantity variance. In the case of ZM, mix variance came out to be Z\$0.60 m favorable and the quantity variance came out to be favorable Z\$1.70 m. Favorable mix variance Z\$0.60 m indicates that the sales mix shifts toward the industrial flooring rolls i.e. high contribution product. ZM sold 40,000 more rolls than were budgeted, resulting in Z\$1.70 m favorable quantity variance. Therefore, it is necessary to identify the reasons behind the increase in sales. The reasons may be competitor's distribution issues, better customer services, or growth in overall market. Further insight into reasons of quantity variance can be gain by analyzing market share and size variances. ZM gain 2 market share percentage points from 10% budgeted share to the actual share of 12%. The Z\$5.95 m favorable market share variance may be the effect of the decline in *contribution margin rate*. The impact of changing market size on contribution margin can be traced through market size variance. Market size variance is Z\$4.25 m adverse as actual market size decreased 12.5% compared to budgeted market size. Further, it appears that accountant has missed to compute the *price variance* which is a substantial part of the analysis. If we look closely at the data given, the price variance for domestic as well as industrial roll can be computed without difficulty. The price variance for domestic flooring rolls as well as industrial flooring rolls is unfavorable; this indicates that the both varieties were sold a lower margin than standard. This throughout analysis shows a negative impact of Z\$ 5.785 m on contribution margin for which price variance is the main contributor. Revised structures after the computation of price variance are as under:

**Workings****Contribution Price Variance**

Product	Actual Qty. (units'000)	Actual Contribution per unit (Z\$)	Standard Contribution per unit (Z\$)	Difference (Z\$)	Variance (Z\$)
Domestic	570	27.00	40.00	-13.00	7.41 m (A)
Industrial	270	47.50	50.00	-2.50	0.675 m (A)
Total	840				8.085 m (A)

(ii) Strategic Inputs

The actual sale of industrial flooring rolls is 35% higher than projections. However, actual contribution margin of Z\$47.5 is *marginally lower* than standard contribution margin of Z\$50 per unit. This indicates that ZM may have cut its selling price to

maintain or gain market share. Therefore, industrial flooring rolls are in the **Growth Phase** of product life cycle. Due to increase in demand, there is a possibility of higher sales and profits to be made in future years.

Similarly, the actual sale of domestic flooring roll is 5% lower than the expectations. However, actual contribution margin is Z\$27 per roll i.e. 32.5% lower than the standard contribution margin. This indicates that ZM may have sold these at substantially reduced price to maintain the sales volume. Therefore, the domestic residential flooring rolls might be in the **Decline Stage** of product life cycle.

The market size for flooring rolls has reduced from an expectation of 80 lacs rolls to 70 lacs rolls. Therefore, the market size has shrunk significantly by 12.5% for the year 2019. This is a *threat to profitability* of business. The management has to understand the reasons behind this shrinkage. For example, dwindling demand maybe on account of cheaper substitutes available for flooring rolls. The management has to take cognizance of this threat to business. A positive for ZM is that its actual market share for flooring rolls was higher than expected at 12%. An increase in market share would have a beneficial impact on the company's profitability. Also, despite the shrinkage in market size, demand for industrial flooring rolls seems to be on the rise. This could be an *opportunity* for the management to consider.

As explained above, the industrial flooring rolls seem to be in the Growth Stage of product life cycle, while the domestic residential rolls are in the Decline Stage. Industrial flooring rolls have a higher contribution margin per roll as compared to domestic residential rolls. Accordingly, ZM may consider phasing out domestic flooring rolls and concentrate on industrial flooring rolls. In view of shrinking market conditions, it would be more profitable to phase out the weaker product and concentrate on the fast moving and profitable product. At the same time, since domestic flooring roll still has *significant demand*, the strategy to phase out this product may have to be done in a *phased and well-planned manner*. In view of the shrinking market size, ZM should not end up losing its market share due to phasing out domestic flooring rolls.

For Your Conceptual Understanding**“Budgeted Vs Actual Figures”**

Product	Budgeted Qty. Rolls ('000)	Standard Cont. per Roll (Z\$)	Budgeted Cont. (Z\$ 'in millions)	Actual Qty. Rolls ('000)	Actual Cont. per Roll (Z\$)	Actual Cont. (Z\$ 'in millions)	Revised Actual Qty. ('000)
Dom.	600	40	24.00	570	27	15.390	630 (840×75%)
Ind.	200	50	10.00	270	47.5	12.825	210 (840×25%)
	800		34.00	840		28.215	840

Contribution Mix Variance

Product	Standard Contribution per unit (Z\$)	Actual Qty. (units'000)	Revised Actual Quantity (units'000)	Difference ('000)	Variance (Z\$)
Domestic	40	570	630	-60	2.40 m (A)
Industrial	50	270	210	+60	3.00 m (F)
Total		840			0.60 m (F)

Contribution Quantity Variance

Product	Standard Contribution per unit (Z\$)	Revised Actual Quantity (units'000)	Budgeted Quantity (units'000)	Difference ('000)	Variance (Z\$)
Domestic	40	630	600	+30	1.20 m (F)
Industrial	50	210	200	+10	0.50 m (F)
Total		840			1.70 m (F)

Market Size Variance

= Budgeted Market Share % × (Actual Industry Sales Quantity <i>in units</i> – Budgeted Industry Sales Quantity <i>in units</i>) × (Average Budgeted Contribution <i>per unit</i>)
= 10% × (70,00,000 Rolls – 80,00,000 Rolls) × Z\$ 42.50
= Z\$ 4.25 m (A)

Market Share Variance

= (Actual Market Share % – Budgeted Market Share %) × (Actual Industry Sales Quantity <i>in units</i>) × (Average Budgeted Contribution <i>per unit</i>)
= (12% – 10 %) × 70,00,000 Rolls × Z\$ 42.50
= Z\$ 5.95 m (F)

8. In this case we can see that there are two considerable sides of the question one is customer satisfaction and another one is profitability. By adopting the proposed plans firm manage to get higher customer satisfaction score card and it is expected that with high customer satisfaction, the firm's financial result will improve i.e. increase ROA. However, increasing the customer satisfaction is costly. Plans which are used to increase customer satisfaction will increase the cost of the firm. This additional cost will weaken the firm's ROA by lowering profit and increasing the asset base. The optimum level of customer satisfaction is where the incremental benefits are equal to incremental costs of increasing satisfaction.

While observing the pattern of data, the customer satisfaction has increased from 86 points to 91 points in first three quarters of 2019. At this level, the additional benefits seem to more significant than the additional cost. However, in subsequent quarters, additional cost has increased more rapidly than the additional benefits. Therefore, there is decrease in ROA as we move forward on the index. However, toward the end of 2020, we see a marginal increase in ROA. This is due to the **lead-lag relation** between satisfaction and ROA. Increased satisfaction might take some more time, some more quarters to result in higher ROA and the relation might not be linear. However, toward the end of 2020, the customer satisfaction score stabilizes at current levels (93-96 points).

Overall, Kristin should not stop investing in superior customer experience, the lack of apparent pattern in customer satisfaction and profitability could stem from several causes as discussed above. Instead, firm should take decision considering current satisfaction levels, the cost to increased satisfaction, and perception of the increased benefit. Moreover, the firm should also consider the current sales, otherwise it might lose its share to competitor if they do nothing!

9. **Statement Showing Performance**

	July	Aug	Sep
Advertisement cost as a percentage of donation	2.5%	4%	3%
Target percentage of Advertisement cost of donation	3%	3%	3%
Welfare cost as a percentage of donation	82%	84%	89%
Target percentage of welfare cost as a percentage of donation	85%	85%	85%
Respite care provided	80%	87.98%	92%
Target percentage of respite care	90%	90%	90%

Comment

Total donation received ₹31,00,000 (=₹7,00,000+₹13,00,000+₹11,00,000) have exceeded the target ₹30,00,000. Though there is no fix trend of receiving fund while it is noticeable that there were special fundraising activities in Aug which generated highest receipt.

Advertisement costs have been within the target of 3% in July and Sep but exceeded the target in Aug, more information is needed to establish why this occurred.

For the month of July and Aug the welfare cost are less than the target, while for the month of September Olderhelp have exceeded the target of expenditure of cost.

The improvement in the respite care provided by Olderhelp has been steady and for the month of september the target has exceeded.

10. Higher contribution margin ratio exhibited by firm WD indicates that firm WD is following a ***differentiation strategy*** while firm WG appears to be more focused on cost leadership. This is also substantiated by higher fixed costs i.e. R&D, innovation etc. for each sale ₹ in firm WD.

Innovation allows a firm to command premium prices and earn more contribution per sales ₹. However, innovation is expensive.

	Firm WD	Firm WG
Contribution margin/ Sales	0.55	0.40
Fixed costs/ Sales	0.35	0.30
Profit margin/ Sales	0.20	0.10

PAPER – 6A to 6F [ELECTIVE PAPERS]

PAPER – 6 A : RISK MANAGEMENT

PAPER – 6 B : FINANCIAL SERVICES AND CAPITAL MARKET

PAPER – 6 C : INTERNATIONAL TAXATION

PAPER – 6 D : ECONOMIC LAWS

PAPER – 6 E : GLOBAL FINANCIAL REPORTING STANDARDS

PAPER – 6 F : MULTIDISCIPLINARY CASE STUDY

These papers are open book and case study based. Case Studies on all the above elective subjects have been webhosted at the BoS Knowledge Portal.

PAPER 7: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SECTION – A: STATUTORY UPDATE

The direct tax laws, as amended by the Finance Act, 2019, the Finance (No.2) Act, 2019 and Taxation Laws (Amendment) Act, 2019, including significant notifications and circulars issued upto 30th April, 2020 are applicable for November, 2020 examination. The relevant assessment year for November, 2020 examination is A.Y.2020-21. The amendments made by the Taxation Laws (Amendment) Act, 2019 and significant notifications/circulars issued upto 30th April, 2020, relevant for November, 2020 examination but not covered in the October, 2019 edition of the Study Material, are given hereunder:

PART – I : DIRECT TAX LAWS

Chapter 7: Capital Gains

Central Government notifies “specified securities” for the purposes of section 47(viiab)(d) [Notification No. 16/2020, dated 05-03-2020]

Section 47(viiab)(a)/(b)/(c) provides that any transfer of a capital asset, being bond or Global Depository Receipt referred to in section 115AC(1) or rupee denominated bond of an Indian company or a derivative, made by a non-resident on a recognised stock exchange located in any International Financial Services Centre (IFSC) would not be considered as transfer for attracting capital gains tax, where the consideration for such transfer is paid or payable in foreign currency.

Further, section 47(viiab)(d) provides that any transfer of a capital asset, being such other securities as may be notified by the Central Government in this behalf, made by a non-resident on a recognised stock exchange located in any IFSC would not be considered as transfer for attracting capital gains tax, where the consideration for such transfer is paid or payable in foreign currency.

Accordingly, the Central Government has, vide this notification, specified the following securities:

- (i) foreign currency denominated bond;
- (ii) unit of a Mutual Fund;
- (iii) unit of a business trust;
- (iv) foreign currency denominated equity share of a company;
- (v) unit of Alternative Investment Fund,

which are listed on a recognised stock exchange located in any International Financial Services Centre in accordance with the regulations made by the SEBI under the Securities and Exchange Board of India Act 1992 or the International Financial Services Centres Authority under the International Financial Services Centres Authority Act 2019, as the case may be.

Chapter 8: Income from Other Sources

Notification of class of persons, receipt of immovable property from whom would not attract the provisions of section 56(2)(x) [Notification No. 96/2019 dated 11.11.2019]

Section 56(2)(x) brings to tax under the head “Income from other sources”, any sum of money received without consideration, if the aggregate value exceeds ₹ 50,000 or value of immovable property being land or building or both, received without consideration, if the stamp duty value exceeds ₹ 50,000. It also brings to tax, in a case where immovable property is received for inadequate consideration, the difference between the stamp duty value and actual sale consideration, if the stamp duty value exceeds such consideration and such excess amount is more than higher of ₹ 50,000 and 5% of sale consideration.

The proviso to section 56(2)(x), however, lists out the circumstances under which any sum of money or value of property would not be chargeable to tax under the head “Income from other sources”. The Finance (No.2) Act, 2019 has inserted clause (XI) to the proviso to provide that any sum of money or value of property would not be chargeable to tax in the hands of the recipient if it is received from such class of persons and subject to such conditions, as may be prescribed.

Accordingly, the Central Government has, vide this notification, inserted Rule 11UAC to provide that the provisions of section 56(2)(x) shall **not** apply to any immovable property, being land or building or both, received by a resident of an unauthorised colony in the National Capital Territory of Delhi, where the Central Government by notification in the Official Gazette, regularised the transactions of such immovable property based on the latest Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration for conferring or recognising right of ownership or transfer or mortgage in regard to such immovable property in favour of such resident.

Meaning of the terms “Resident” and “Unauthorised colony”:

Term	Meaning
Resident	A person having physical possession of property on the basis of a registered sale deed or latest set of Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration in respect of a property in unauthorised colonies and includes their legal heirs but does not include tenant, licensee or permissive user;
Unauthorised colony	A colony or development comprising of a contiguous area, where no permission has been obtained for approval of layout plan or building plans and has been identified for regularisation of such colony in pursuance to the notification number S.O. 683(E), dated the 24 th March, 2008, of the Delhi Development Authority.

Chapter 12: Assessment of Various Entities

The October, 2019 edition of the Study Material incorporates the amendments made by the Taxation Laws (Amendment) Ordinance, 2019, promulgated by the President of India on 20.9.2019. The same has been subsequently approved by the Cabinet, consequent to which, the Taxation Laws (Amendment) Bill, 2019, with certain further changes, was introduced in the Parliament. The same has been passed by both Houses of the Parliament and has received the assent of the President of India on 11.12.2019. This Act shall be deemed to have come into force on 20.9.2019.

On account of the subsequent amendments brought in through the Taxation Laws (Amendment) Bill, 2019 introduced in the Parliament, **students are advised to ignore Annexures 1, 2 and 3 of Chapter 12 in the printed copy of Module 2 of the October 2019 edition and instead, read the Annexures given hereunder:**

Annexure 1

Insertion of new sections 115BAB and 115BAA providing for concessional rate of tax in respect of certain domestic companies

New sections 115BAB and 115BAA have been inserted by the Taxation Laws (Amendment) Act, 2019, providing for concessional rates of tax and exemption from minimum alternate tax (MAT) in respect of certain domestic companies with effect from A.Y.2020-21. The provisions of these two new sections are tabulated hereunder -

(1)	(2)	(3)	(4)
	Particulars	Section 115BAB	Section 115BAA
(1)	Applicability	Domestic manufacturing company	Any domestic company
(2)	Rate of tax	15%	22%
(3)	Rate of surcharge	10%	10%
(4)	Effective rate of tax (including surcharge & HEC)	17.16% [Tax@15% (+) Surcharge@10% (+) HEC@4%]	25.168% [Tax@22% (+) Surcharge@10% (+) HEC@4%]
(5)	Applicability of MAT	Not applicable	Not applicable
(6)	Manner of computation of tax liability		
	Particulars	Section 115BAB	Section 115BAA
	Income on which concessional rate of tax is applicable	The rate of tax (i.e., 17.16%) is applicable in respect of income derived from or incidental to manufacturing or	The rate of tax (i.e., 25.168%) is notwithstanding anything

	production of an article or thing. [Read with point no.11 below, wherein the rate of 34.32% (i.e., Tax@30% + surcharge@10% + HEC@4%) would be applicable in specified circumstance]	contained in the Income-tax Act, 1961, but subject to the provisions of Chapter XII, other than section 115BA and 115BAB.
Rate of tax on income covered under Chapter XII [for example, long-term capital gains chargeable to tax u/s 112 and 112A, short-term capital gains chargeable to tax u/s 111A]	Such income would be subject to tax at the rates mentioned in the said sections in Chapter XII. Surcharge@10% would be levied on tax computed on such income. HEC@4% would be levied on the income-tax <i>plus</i> surcharge.	Such income would be subject to tax at the rates mentioned in the said sections in Chapter XII. Surcharge@10% is leviable on tax computed on such income. HEC@4% would be levied on the income-tax <i>plus</i> surcharge.
Rate of tax on other income in respect of which no specific rate of tax is provided in Chapter XII	The applicable tax rate is 25.168% (i.e., tax@22%, <i>plus</i> surcharge @10% <i>plus</i> HEC@4%), if such income has neither been derived from nor is incidental to manufacturing or production of an article or thing (For example, income from house property and income from other sources). In respect of such income, no deduction or allowance in respect of any expenditure or allowance shall be allowed in computing such income.	The applicable tax rate is 25.168% (i.e., tax@22% <i>plus</i> surcharge@10% <i>plus</i> HEC@4%). There is, however, no restriction regarding claim of any deduction or allowance permissible under the relevant provisions of the Act.
Rate of tax on STCG derived from transfer of a capital asset	The applicable rate of tax is 25.168% (i.e., tax@22%,	The applicable rate of tax is 25.168% i.e., tax

	on which no depreciation is allowable under the Act	<p>plus surcharge@10% plus HEC@4%).</p> <p>There is, however, no restriction regarding claiming of deduction or allowance in this regard.</p>	<p>@22%, plus surcharge @10% plus cess@4%.</p> <p>There is no restriction regarding claiming of deduction or allowance in this regard.</p>
(7)	Conditions to be fulfilled for availing concessional rate of tax and exemption from MAT		
	Particulars	Section 115BAB	Section 115BAA
	Conditions to be fulfilled for availing concessional rate of tax and exemption from MAT	(i) The company should be set-up and registered on or after 1.10.2019.	No time limit specified. Both existing companies and new companies can avail benefit.
		(ii) It should commence manufacturing or production of an article or thing on or before 31.3.2023.	Need not be a manufacturing or a production company
		(iii) It should not be formed by splitting up or the reconstruction of a business already in existence (except in case of a company, business of which is formed as a result of the re-establishment, reconstruction or revival by the person of the business of any undertaking referred to in section 33B in the circumstances and within the period specified therein)	No similar condition has been prescribed

		(iv)	It does not use any machinery or plant previously used for any purpose [Refer Note at the end]	No similar condition has been prescribed
		(v)	It does not use any building previously used as a hotel or a convention centre [meanings assigned in section 80-ID(6)] in respect of which deduction u/s 80-ID has been claimed and allowed.	No similar condition has been prescribed
		(vi)	<p>It should not be engaged in any business other than the business of manufacture or production of any article or thing and research in relation to, or distribution of, such article or thing manufactured or produced by it.</p> <p>Note – Business of manufacture or production of any article or thing does not include business of –</p> <ol style="list-style-type: none"> (1) Development of computer software in any form or in any media (2) Mining (3) Conversion of marble blocks or similar items into slabs (4) Bottling of gas into cylinder (5) Printing of books or production of cinematograph films (6) Any other business as may be notified by the Central Govt. in this behalf. 	No similar condition has been prescribed
		<p>Note - If difficulty arises regarding fulfilment of conditions listed in (iv) to (vi) above, the CBDT may, with the approval of the Central Government, issue guidelines for the purpose of removing difficulty and to promote manufacturing or production of article or thing using new plant and machinery.</p>		

		<i>Every guideline issued by the CBDT has to be laid before each House of Parliament, and shall be binding on the person, and the income-tax authorities subordinate to it.</i>																	
(8)	Common conditions for both sections for availing the concessional rate of tax and exemption from MAT	In case of a company opting for either section 115BAA or 115BAB, the total income should be computed - (i) without providing for deduction under any of the following sections: <table><tr><th>Section</th><th>Provision</th></tr><tr><td>10AA</td><td>Exemption of profits and gains derived from export of articles or things or from services by an assessee, being an entrepreneur from his Unit in SEZ.</td></tr><tr><td>32(1)(iia)</td><td>Additional depreciation @20% or 35%, as the case may be, of actual cost of new plant and machinery acquired and installed by manufacturing undertakings.</td></tr><tr><td>32AD</td><td>Deduction@15% of actual cost of new plant and machinery acquired and installed by an assessee in a manufacturing undertaking located in the notified backward areas of Andhra Pradesh, Telengana, Bihar and West Bengal.</td></tr><tr><td>33AB</td><td>Deduction@40% of profits and gains of business of growing and manufacturing tea, coffee or rubber in India, to the extent deposited with NABARD in accordance with scheme approved by the Tea/Coffee/ Rubber Board.</td></tr><tr><td>33ABA</td><td>Deduction@20% of the profits of a business of prospecting for, or extraction or production of, petroleum or natural gas or both in India, to the extent deposited with SBI in an approved scheme or deposited in Site Restoration Account.</td></tr><tr><td>35(1)(ii)/(iia)/(iii)</td><td>Deduction/weighted deduction for payment to any research association, company, university etc. for undertaking scientific research or social science or statistical research.</td></tr><tr><td>35(2AA)</td><td>Weighted deduction@150% of payment to a National Laboratory or University or IIT or approved specified person for scientific research</td></tr></table>		Section	Provision	10AA	Exemption of profits and gains derived from export of articles or things or from services by an assessee, being an entrepreneur from his Unit in SEZ.	32(1)(iia)	Additional depreciation @20% or 35%, as the case may be, of actual cost of new plant and machinery acquired and installed by manufacturing undertakings.	32AD	Deduction@15% of actual cost of new plant and machinery acquired and installed by an assessee in a manufacturing undertaking located in the notified backward areas of Andhra Pradesh, Telengana, Bihar and West Bengal.	33AB	Deduction@40% of profits and gains of business of growing and manufacturing tea, coffee or rubber in India, to the extent deposited with NABARD in accordance with scheme approved by the Tea/Coffee/ Rubber Board.	33ABA	Deduction@20% of the profits of a business of prospecting for, or extraction or production of, petroleum or natural gas or both in India, to the extent deposited with SBI in an approved scheme or deposited in Site Restoration Account.	35(1)(ii)/(iia)/(iii)	Deduction/weighted deduction for payment to any research association, company, university etc. for undertaking scientific research or social science or statistical research.	35(2AA)	Weighted deduction@150% of payment to a National Laboratory or University or IIT or approved specified person for scientific research
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		35(2AB)	Weighted deduction@150% of in-house scientific research expenditure incurred by a company engaged in the business of bio-technology or in the business of manufacture or production of an article or thing.
		35AD	Investment-linked tax deduction for specified businesses.
		35CCC	Weighted deduction@150% of expenditure incurred on notified agricultural extension project
		35CCD	Weighted deduction@150% of expenditure incurred by a company on notified skill development project.
		80-IA to 80RRB	Deductions from gross total income under Chapter VI-A under the heading "C- Deductions in respect of certain incomes" other than the provisions of section 80JJAA.
		<p>(ii) without set-off of any loss or allowance for unabsorbed depreciation deemed so u/s 72A, where such loss or depreciation is attributable to any of the deductions listed in (i) above [Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss shall be allowed for any subsequent year]</p> <p>(iii) by claiming depreciation u/s 32 determined in the prescribed manner. However, additional depreciation u/s 32(1)(iia) cannot be claimed.</p> <p><u>Note – Additional points relevant in the context of section 115BAA:</u></p> <p>(1) In case of a company opting for section 115BAA, total income should be computed without set-off of any loss carried forward or depreciation from any earlier assessment year, where such loss or depreciation is attributable to any of the deductions listed in (i) above [Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year]</p> <p>(2) In the case of a person having a Unit in the IFSC, referred to in section 80LA(1A), which has exercised option for section 115BAA, deduction u/s 80LA would be allowed subject to fulfilment of the conditions specified in that section.</p> <p>(3) Where there is a depreciation allowance in respect of a block of asset which has not been given full effect to prior to A.Y.2020-21,</p>	

		<p>corresponding adjustment shall be made to the WDV of such block of assets as on 1.4.2019 in the prescribed manner, if option for section 115BAA is exercised for P.Y.2019-20 relevant to A.Y.2020-21.[For example, in case of an asset acquired and put to use for less than 180 days in P.Y. 2018-19, the effect of balance additional depreciation to be allowed in P.Y. 2019-20 will be made in the WDV of the block as on 1.4.2019, if option for section 115BAA is exercised for P.Y.2019-20 relevant to A.Y.2020-21]</p> <p>(4) Since there is no time line within which option under section 115BAA can be exercised, a domestic company having brought forward losses and depreciation on account of deductions listed in (i) above may, if it so desires, postpone exercise the option under section 115BAA to a later assessment year, after set off of the losses and depreciation so accumulated.</p>	
	Particulars	Section 115BAB	Section 115BAA
(9)	Failure to satisfy conditions	<p>On failure to satisfy the conditions mentioned in point no. (7) and (8) above in any P.Y., the option exercised would be invalid in respect of the assessment year relevant to that previous year and subsequent assessment years;</p> <p>Consequently, the other provisions of the Act would apply to the person as if the option had not been exercised for the assessment year relevant to that previous year and subsequent assessment years.</p> <p>Note – Where option exercised under section 115BAB is rendered invalid due to violation of conditions stipulated in point no.7 [(iv) to (vi)] above, such person may exercise option under section 115BAA.</p>	<p>On failure to satisfy the conditions mentioned in point no.(8) above in any P.Y., the option exercised would be invalid in respect of the assessment year relevant to that previous year and subsequent assessment years;</p> <p>Consequently, the other provisions of the Act would apply to the person as if the option had not been exercised for the assessment year relevant to that previous year and subsequent assessment years.</p>
	Particulars	Section 115BAB	Section 115BAA
(10)	Availability of set-off of MAT credit	Since it is a new company, there would be no brought forward MAT credit	Brought forward MAT credit cannot be set-off against income u/s

	brought forward from earlier years		115BAA. Note - If a company has b/f MAT credit, it can first exhaust the MAT credit, and thereafter opt for section 115BAA in a subsequent previous year.
	Particulars	Section 115BAB	Section 115BAA
(11)	Adjustments for transactions with persons having close connection	<p>If the Assessing Officer opines that the course of business between the company and any other person having close connection therewith is so arranged that the business transacted between them produces more than the ordinary profits to the company, he is empowered to take into account the amount of profits as may be reasonably deemed to have been derived therefrom, while computing profits and gains of such company.</p> <p>In case the arrangement referred above involves a specified domestic transaction referred to in section 92BA, then, the amount of profits from such transaction would be determined by considering the arm's length price (ALP).</p> <p>The amount, being profits in excess of the amount of the profits determined by the Assessing Officer, shall be deemed to be the income of the person.</p> <p>The income-tax on the income so deemed shall be subject to tax@34.32%(i.e., tax@30% + surcharge @10% +HEC@4%).</p> <p>Note – The scope of “specified domestic transaction” referred to in section 92BA has been expanded to include within its ambit, any business transacted between such persons with close connection, where one such person is a company claiming benefit under section 115BAB.</p>	No such requirement to make any adjustment

	Particulars	Section 115BAB	Section 115BAA
(12)	Exercise of option by the company within the prescribed time	<p>The beneficial provisions of this section would apply only if option is exercised in the prescribed manner on or before the due date u/s 139(1) for furnishing the first of the returns of income for any previous year relevant to A.Y.2020-21 or any subsequent assessment year.</p> <p>Such option, once exercised, would apply to subsequent assessment years.</p> <p>Further, once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.</p> <p>Notes – (1) <i>The option has to be exercised at the time of furnishing the first of the returns of income for any previous year. If a person fails to so exercise such option, it cannot be exercised thereafter for any subsequent previous year.</i></p> <p>(2) <i>In case of amalgamation, the option exercised u/s 115BAB shall remain valid in the case of the amalgamated company only and if the conditions mentioned in point no.(7) and (8) are continued to be satisfied by such company.</i></p>	<p>The beneficial provisions of this section would apply if option is exercised in the prescribed manner on or before the due date u/s 139(1) for furnishing the return of income for any previous year relevant to A.Y.2020-21 or any subsequent A.Y..</p> <p>Such option, once exercised, would apply to subsequent assessment years.</p> <p>Further, once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year.</p> <p>Note – <i>The option can be exercised even in a later year, but once exercised, cannot be withdrawn subsequently. Further, where the person exercises option under section 115BAA, the option under section 115BA may be withdrawn.</i></p>

Note - For the purpose of point no.7(iv) in column (3) of the above table in relation to a company exercising option under section 115BAB, any machinery or plant which was used outside India by any other person shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled, namely:—

- (a) such machinery or plant was not, at any time previous to the date of the installation, used in India;

- (b) such machinery or plant is imported into India from any country outside India;
- (c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of the Income-tax Act, 1961 in computing the total income of any person for any period prior to the date of installation of the machinery or plant by the person.

Further, where in the case of a person, any machinery or plant or any part thereof previously used for any purpose is put to use by the company and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used by the company, then, the condition specified that the company does not use any machinery or plant previously used for any purpose would be deemed to have been complied with.

Note - Students are advised to **ignore the last paragraph in page no.1.38 and the first paragraph in page no. 1.39** given in italics in Chapter 1: Basic Concepts of the printed copy of Module 1 of the October, 2019 Edition of the Study Material, which incorporates the provision relating to surcharge as inserted by the Taxation Laws (Amendment) Ordinance, 2019 promulgated on 20.9.2019. Consequent to the amendment effected by the Taxation Laws (Amendment) Act, 2019 as assented by the President of India on 11.12.2019, **surcharge of 10% would be leviable on the income-tax computed on the total income of a company opting for the provisions of section 115BAA or 115BAB.**

Annexure 2

Rates of Surcharge applicable to Individuals/HUF/AOPs/BOIs/Artificial Juridical Persons for A.Y.2020-21

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including income u/s 111A and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	<ul style="list-style-type: none"> STCG u/s 111A ₹ 30 lakhs; LTCG u/s 112A ₹ 25 lakhs; and Other income ₹ 40 lakhs 	Surcharge would be levied @ 10% on income-tax computed on total income of ₹ 95 lakhs.
(ii)	Where total income (including income u/s 111A and 112A) exceeds ₹ 1 crore but does not exceed ₹ 2 crore	15%	<ul style="list-style-type: none"> STCG u/s 111A ₹ 60 lakhs; LTCG u/s 112A ₹ 65 lakhs; and Other income ₹ 50 lakhs 	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 1.75 crores.

(iii)	<p>Where total income (excluding income u/s 111A and 112A) exceeds ₹ 2 crore but does not exceed ₹ 5 crore</p> <p>The rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 111A and 112A</p>	<p>25%</p> <p>Not exceeding 15%</p>	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 54 lakh; • LTCG u/s 112A ₹ 55 lakh; and • Other income ₹ 3 crores 	<p>Surcharge would be levied @15% on income-tax on:</p> <ul style="list-style-type: none"> • STCG of ₹ 54 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 112A. <p>Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income</p>
(iv)	<p>Where total income (excluding income u/s 111A and 112A) exceeds ₹ 5 crore</p> <p>Rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 111A and 112A</p>	<p>37%</p> <p>Not exceeding 15%</p>	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 50 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 6 crore 	<p>Surcharge@15% is leviable on income-tax on:</p> <ul style="list-style-type: none"> • STCG of ₹ 50 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 65 lakhs chargeable to tax u/s 112A. <p>Surcharge@37% is leviable on the income-tax computed on other income of ₹ 6 crores included in total income.</p>
(v)	Where total income (including income u/s	15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 60 lakhs; 	Surcharge would be levied@15% on

111A and 112A) exceeds ₹ 2 crore in cases not covered under (iii) & (iv) above	<ul style="list-style-type: none"> • LTCG u/s 112A ₹ 55 lakhs; and • Other income ₹ 1.10 crore 	income-tax computed on total income of ₹ 2.25 crore.
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Note – Students are advised to **ignore** the table containing rates of surcharge for individuals/HUF/AOP/BOI and Artificial Juridical Persons given in **pages 1.35-1.36 of Chapter 1 in Module 1** of the printed copy of the October, 2019 Edition of the Study Material and instead, read the contents of the above table.

Annexure 3

Rates of Surcharge applicable on tax on total income of Individuals/AOPs/BOIs/Artificial Juridical Persons (having any income under section 115AD) for payment of advance tax for A.Y.2020-21

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	<ul style="list-style-type: none"> • Capital gains on securities referred to in section 115AD(1)(b) ₹ 60 lakhs; and • Other income ₹ 35 lakhs; 	Surcharge would be levied @10% on income-tax computed on total income of ₹ 95 lakhs.
(ii)	Where total income > ₹ 1 crore but ≤ ₹ 2 crore	15%	<ul style="list-style-type: none"> • Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.20 crore; and • Other income ₹ 60 lakhs; 	Surcharge would be levied @15% on income-tax computed on total income of ₹ 1.80 crore.
(iii)	Where total income [excluding STCG/LTCG on securities referred to in section 115AD(1)(b)] > ₹ 2 crore but ≤ ₹ 5 crore	25%	<ul style="list-style-type: none"> • Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.20 crore; and 	Surcharge would be levied: @15% on income-tax leviable on capital gains of ₹ 1.20 crore referred

	Rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 115AD(1)(b)	Not exceeding 15%	<ul style="list-style-type: none"> Other income ₹ 3 crores; 	to in section 115AD; and @25% on income-tax computed on other income of ₹ 3 crores included in total income
(iv)	Where total income [excluding STCG/LTCG on securities referred to in section 115AD(1)(b)] > ₹ 5 crore	37%	<ul style="list-style-type: none"> Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.70 crore; and Other income ₹ 6 crore 	Surcharge would be levied - @15% on income-tax leviable on capital gains of ₹ 1.70 crore referred to in section 115AD; and @37% on income-tax computed on other income of ₹ 6 crore included in total income
	Rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 115AD(1)(b)	Not exceeding 15%		
(v)	Where total income [including STCG/LTCG on securities referred to in 115AD(1)(b)] > ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	<ul style="list-style-type: none"> Capital gains on securities referred to in section 115AD(1)(b) ₹ 1.10 crore; and Other income ₹ 1.60 crore; 	Surcharge would be levied @15% on tax on total income of ₹ 2.70 crore.

Chapter 13: Assessment of Charitable or Religious Trusts or Institutions, Political Parties and Electoral Trusts

Amendment in Rule 17C to include investment made by National Payments Corporation of India in its subsidiary companies as a permissible form of investment by a charitable trust [Notification No. 15/2020, dated 05-03-2020]

Section 11 permits accumulation of 15% of income indefinitely by a charitable trust or institution. However, the remaining 85% of income can be accumulated for a period not exceeding 5 years subject to the condition that the money so accumulated or set apart is invested in forms and modes specified under section 11(5). Clauses (i) to (xi) of section 11(5) enlists the permissible investments and deposits. Clause (xii) is the residual clause permitting any other form or mode of investment or deposit as may be prescribed. Accordingly, Rule 17C prescribes the other

permissible forms or modes of investment or deposits by a charitable or religious trust or institution.

The CBDT has, vide this notification, inserted clause (va) in Rule 17C to include, within its scope, investment made by a person, authorised under section 4 of the Payment and Settlement Systems Act, 2007, in the equity share capital or bonds or debentures of a company —

- (A) which is engaged in operations of retail payments system or digital payments settlement or similar activities in India and abroad and is approved by the Reserve Bank of India for this purpose; and
- (B) in which at least 51% of equity shares are held by National Payments Corporation of India.

Chapter 15: Deduction, Collection and Recovery of Tax

Clarification as to the applicability of section 194N and manner of computing the threshold limit of ₹ 1 crore thereunder, where cash withdrawals have taken place prior to 1.9.2019 [Press Release dated 30.8.2019]

The Finance (No. 2) Act, 2019 has inserted section 194N, w.e.f. 1.9.2019 to require every person, being a banking company, a co-operative society engaged in carrying on the business of banking or a post office who is responsible for paying, in cash, any sum or aggregate of sums exceeding ₹ 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, to deduct tax at source@2% of sum exceeding ₹ 1 crore. The deduction is to be made at the time of payment of such sum.

The CBDT has, vide Press Release dated 30.8.2019, clarified that section 194N is to come into effect from 1st September, 2019. Hence, any cash withdrawal prior to 1st September, 2019 will not be subjected to the TDS under section 194N. However, since the threshold of ₹ 1 crore is with respect to the previous year 2019-20, calculation of amount of cash withdrawal for triggering deduction under section 194N shall be counted from 1st April, 2019. Hence, if a person has already withdrawn ₹ 1 crore or more in cash upto 31st August, 2019 from one or more accounts maintained with a banking company or a cooperative bank or a post office, TDS@2% shall apply on all subsequent cash withdrawals.

No tax is required to be deducted at source under section 194N on cash withdrawals by persons or class of persons as notified by the Central Government [Notification No. 80/2019, dated 15.10.2019]

The proviso to section 194N provides that no tax is, however, required to be deducted at source on payments made to *inter alia* such other person or class of persons as notified by the Central Government.

Accordingly, the Central Government has, vide this notification, after consultation with the Reserve Bank of India (RBI), specified -

- (a) the authorised dealer and its franchise agent and sub-agent; and
- (b) Full-Fledged Money Changer (FFMC) licensed by the RBI and its franchise agent;

Such persons should maintain a separate bank account from which withdrawal is made only for the purposes of -

- (i) purchase of foreign currency from foreign tourists or non-residents visiting India or from resident Indians on their return to India, in cash as per the directions or guidelines issued by RBI; or
- (ii) disbursement of inward remittances to the recipient beneficiaries in India in cash under Money Transfer Service Scheme (MTSS) of the RBI;

The exemption from the requirement to deduct tax u/s 194N would be available only if a certificate is furnished by the authorised dealers and their franchise agent and sub-agent, and the Full-Fledged Money Changers (FFMC) and their franchise agent to the bank that withdrawal is only for the purposes specified above and the directions or guidelines issued by the RBI have been adhered to.

“Authorised dealer” means any person who is authorised by the RBI as an authorised dealer to deal in foreign exchange [Section 10(1) of the Foreign Exchange Management Act, 1999].

Information to be furnished where tax is not deductible or deductible at lower rate under section 194N [Notification No. 98/2019, dated 18.11.2019]

The proviso to section 194N provides that no tax is, however, required to be deducted at source on any payment made to -

- (i) the Government
- (ii) any banking company or co-operative society engaged in carrying on the business of banking or a post-office
- (iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the RBI guidelines.
- (iv) any white label ATM operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the RBI under the Payment and Settlement Systems Act, 2007.
- (v) such other person or class of persons notified by the Central Government in consultation with the RBI.

Accordingly, the CBDT has, vide this notification, inserted clause (ix) in Rule 31A(4) to provide that the deductor, at the time of preparing statement of tax deducted at source, shall furnish the particulars of amount paid or credited on which tax was not deducted in view of the exemption provided in point no. (iii) or (iv) above or in view of the Notification No. 80/2019, dated 15.10.2019 issued under point (v) above.

Time limit, form and manner of depositing tax deducted at source under section 194M prescribed [Notification No. 98/2019, dated 18.11.2019]

Section 194M, inserted with effect from 1.9.2019, provides for deduction of tax at source @5% by an individual or a HUF responsible for paying any sum during the financial year to any resident –

- (i) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract; or
- (ii) by way of commission (not being insurance commission referred to in section 194D) or brokerage; or
- (iii) by way of fees for professional services.

Only individuals and HUFs (other than those who are required to deduct income-tax as per the provisions of section 194C or 194H or 194J) are required to deduct tax in respect of the above sums payable during the financial year to a resident, if the aggregate of such sums, credited or paid, exceed ₹ 50 lakhs.

Consequent to insertion of section 194M, the CBDT has, vide this notification, amended Rule 30, 31 and 31A in the following manner to specify the time limit for depositing the tax deducted at source, challan-cum- statement, certificate for deduction of tax at source:

Rule No.	Provision
Rule 30(2C)	<p><u>Time limit and prescribed form for remittance of TDS</u></p> <p>Any sum deducted under section 194M shall be paid to the credit of the Central Government <u>within a period of thirty days</u> from the end of the month in which the deduction is made and shall be accompanied by a challan-cum statement in Form No. 26QD.</p>
Rule 30(6C)	<p><u>Manner of remittance of TDS</u></p> <p>Where tax deducted is to be deposited accompanied by a challan-cum-statement in Form No.26QD, the amount of tax so deducted shall be deposited to the credit of the Central Government by <u>remitting it electronically within thirty days</u> from the end of the month in which the deduction is made into the Reserve Bank of India or the State Bank of India or any authorised bank.</p>
Rule 31(3C)	<p><u>Certificate for deduction of tax at source and time limit for furnishing such certificate to the payee</u></p> <p>Every person responsible for deduction of tax under section 194M shall furnish the certificate of deduction of tax at source <u>in Form No.16D</u> to the payee <u>within fifteen days</u> from the due date for furnishing the challan-cum-statement in Form No.26QD under rule 31A after generating and downloading the same from the web portal specified by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems) or the person authorised by him.</p>

Rule 31A(4C)	<u>Time limit and manner of submission of Challan-cum Statement</u> Every person responsible for deduction of tax at source under section 194M shall furnish to the Principal Director General of Income-tax (Systems) or Director General of Income-tax (System) or the person authorised by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems) a challan-cum statement in Form No.26QD electronically in accordance with the procedures, formats and standards specified under Rule 31A(5) <u>within thirty days</u> from the end of the month in which the deduction is made.
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Chapter 17: Assessment Procedure

Date for intimation of Aadhaar number to the prescribed authority extended [Notification No. 107/2019, dated 30.12.2019]

As per section 139AA(2), every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before a date as may be notified by the Central Government.

Accordingly, the Central Government has, vide Notification No.31/2019, dated 31.03.2019, notified that every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to the Principal DGIT (Systems) or Principal Director of Income-tax (Systems) on or before 30th September, 2019.

The Central Government has, vide Notification No. 75/2019, dated 28.9.2019 further extended the date from 30th September 2019 to 31st December 2019. This date has further been extended by the Central Government, vide this notification, from 31st December 2019 to 31st March 2020.

Note – Subsequently, this date has been further extended to 31st March, 2021.

Notwithstanding the last date of intimating/linking of Aadhaar Number with PAN being 31.03.2021, it is clarified that w.e.f. 01.04.2019, it is mandatory to quote and link Aadhaar number while filing the return of income, either manually or electronically, unless specifically exempted.

Chapter 23: Miscellaneous Provisions

Permissible electronic modes of payment for the purpose of section 269SU prescribed [Notification No. 105/2019, dated 30.12.2019]

Every person, carrying on business, if his total sales, turnover or gross receipts, as the case may be, in business exceeds fifty crore rupees during the immediately preceding previous year shall provide facility for accepting payment through prescribed electronic modes, in addition to the facility for other electronic modes of payment, if any, being provided by such person.

Accordingly, the CBDT has, vide this notification, inserted Rule 119AA to prescribe the following electronic modes payment, namely -

- (i) Debit Card powered by RuPay;
- (ii) Unified Payments Interface (UPI) (BHIM-UPI); and
- (iii) Unified Payments Interface Quick Response Code (UPI QR Code) (BHIM-UPI QR Code).

Permissible “Other electronic modes” prescribed for the purpose of certain sections [Notification No. 8/2020, dated 29.01.2020]

The following sections have been amended by the Finance (No.2) Act, 2019 to permit payment/receipt referred to therein by other electronic modes to be prescribed, in addition to account payee cheque/bank draft and Electronic Clearing System (ECS) through bank account.

Section	Description of payment/receipt	Study Material Page no.
Chapter 6: Profits and Gains of business or profession		
35AD(8)	Mode of payment of an amount exceeding ₹ 10,000 in a day for capital expenditure in respect of specified business	6.76
40A(3)/(3A)	Mode of payment or aggregate of payments exceeding ₹ 10,000 in a day towards any expenditure (exceeding ₹ 35,000 in a day, in case of payment to transport operator)	6.130/6.131
43(1)	Mode of payment or aggregate of payments exceeding ₹ 10,000 in a day to a person for acquisition of asset (for inclusion in actual cost for computing depreciation)	6.40
44AD(1)	Receipts, included in “turnover/gross receipts”, qualifying for computation of presumptive income @ concessional rate of 6%	6.155
43CA	Mode of payment of part or whole of consideration for transfer of stock-in trade, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of determining full value of consideration for computing profits and gains from business or profession	6.144
Chapter 7: Capital Gains		
50C	Mode of payment of part or whole of consideration for transfer of capital asset, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of determining full value of consideration for computing capital gains	7.70
56(2)(x)	Mode of receipt of part or whole of consideration for transfer of immovable property, being land or building or both, on or	8.15

	before the date of agreement for considering stamp duty value on the date of agreement for the purpose of computing income under the head "Income from other sources".	
Chapter 11: Deductions from Gross Total Income		
80JJAA	Mode of payment of emoluments to additional employees employed during the previous year to qualify for deduction	11.74
Chapter 13: Assessment of Charitable and Religious Trusts and Institutions, Political Parties and Electoral Trusts		
13A	Mode of receipt of donation exceeding ₹ 2,000 by a registered political party	13.53
Chapter 23: Miscellaneous Provisions		
269SS	Mode of receipt of loan/deposit/specified sum of an amount or aggregate of amount of ₹ 20,000 or more	23.2
269ST	Mode of receipt of ₹ 2,00,000 or more - (a) in aggregate from a person in a day or (b) in respect of a single transaction or (c) in respect of transactions relating to one event or occasion from a person	23.3
269T	Mode of repayment of loan or deposit or specified advance of an amount of ₹ 20,000 or more (including interest payable thereon) or if the aggregate amount of loans or deposits held or specified advance received on the date of repayment (together with interest, if any, payable thereon) is ₹ 20,000 or more	23.6

Accordingly, the CBDT has, vide this notification, inserted Rule 6ABBA to prescribe the following electronic modes through which payment can be made or money can be received, for the purposes of above sections cited in the above table -

- (a) Credit Card;
- (b) Debit Card;
- (c) Net Banking;
- (d) IMPS (Immediate Payment Service);
- (e) UPI (Unified Payment Interface);
- (f) RTGS (Real Time Gross Settlement);
- (g) NEFT (National Electronic Funds Transfer), and
- (h) BHIM (Bharat Interface for Money) Aadhar Pay.

Note – Consequent to insertion of Rule 6ABBA, Rule 6DD which specifies the cases and circumstances where disallowance under section 40A(3) would not be attracted, has been amended w.e.f. 29.1.2020 to omit clause (j) thereof providing for exclusion of payment required to be made on a day on which the banks were closed either on account of holiday or strike from the purview of section 40A(3). Accordingly, w.e.f. 29.1.2020, payment in excess of the prescribed limit made otherwise than by prescribed modes on a day on which the banks are closed on account of holiday or strike would attract disallowance under section 40A(3).

PART - II: INTERNATIONAL TAXATION

Chapter 1: Transfer Pricing & Other Anti-avoidance Measures

Time limit for repatriation of excess money or part thereof and manner of computation of interest on excess money not repatriated prescribed [Notification No. 76/2019, dated 30.9.2019]

Section 92CE(2) requires repatriation, within the prescribed time, of the excess money or part thereof, as the case may be, which is available with the associated enterprise, in a case where, as a result of primary adjustment to the transfer price, there is an increase in the total income or reduction in the loss, as the case may be, of the assessee. If the excess money or part thereof is not repatriated to India within the prescribed time, it shall be deemed to be an advance made by the assessee to such associated enterprise and the interest on such advance, shall be computed in the prescribed manner.

The CBDT has, *vide this notification*, amended Rule 10CB(1) which prescribes the time limit for repatriation of excess money or part thereof i.e., on or before 90 days from the specified date. The 90 days period is to be reckoned from the date specified in column (2) in the cases mentioned in column (1) of the table below. Further, the date from which interest is chargeable on the excess money or part thereof which is not repatriated in the cases mentioned in column (1) is given in column (3) in the table below:

Case	Time limit for repatriation of excess money or part thereof: <u>Within 90 days from</u>	Date from which interest is chargeable on the non-repatriated excess money or part thereof within the specified time limit
(1)	(2)	(3)
(i) Where primary adjustments to transfer price have been made <i>suo-motu</i> by the assessee in his return of income	the due date of filing of return u/s 139(1)	<i>the due date of filing of return u/s 139(1)</i>
(ii) If primary adjustments to transfer price as determined in	the date of the said order	<i>the date of the said order</i>

the order of the Assessing Officer or the appellate authority has been accepted by the assessee		
(iii) Where primary adjustment to transfer price is determined by an advance pricing agreement (APA) entered into by the assessee u/s 92CC in respect of a previous year -		
<ul style="list-style-type: none"> If the APA has been entered into on or before the due date of filing of return for the relevant P.Y. 	the date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)
<ul style="list-style-type: none"> If the APA has been entered into on or after the due date of filing of return for the relevant P.Y. 	the end of the month in which the APA has been entered into	the end of the month in which the APA has been entered into
(iv) Where option has been exercised by the assessee as per the safe harbour rules u/s 92CB	the due date of filing of return u/s 139(1)	the due date of filing of return u/s 139(1)
(v) Where the primary adjustment to the transfer price is determined by a resolution arrived at under Mutual Agreement Procedure under a DTAA has been entered into u/s 90 or 90A	the date of giving effect by the A.O. under Rule 44H to such resolution	the date of giving effect by the A.O. under Rule 44H to such resolution

Rule 10CB(2) prescribes the rate at which the per annum interest income shall be computed in case of failure to repatriate the excess money or part thereof within the above time limit. The interest would be computed *inter alia* at six month London Interbank Offered Rate (LIBOR) as on 30th September of the relevant previous year + 3.00%, where the international transaction is denominated in foreign currency.

Rate of exchange for the calculation of the value in rupees of the international transaction denominated in foreign currency shall be the telegraphic transfer buying rate of such currency on the last day of the previous year in which such international transaction was undertaken.

Amendment in Rule 10DA consequent to substitution of section 92D [Notification No. 3/2020, dated 6.1.2020]

The Finance (No.2) Act, 2019 substituted section 92D to provide, *inter alia*, that every person, being a constituent entity of an international group, has to keep and maintain the prescribed information and document in respect of the international group. Thus, the constituent entity has to keep and maintain such prescribed information and document irrespective of the fact whether or not any international transaction is undertaken by such constituent entity. The constituent entity has to furnish the prescribed information and document to the authority prescribed under section 286(1), in the prescribed manner, on or before the prescribed date.

Consequent to this amendment, the CBDT has, vide this notification, amended Rule 10DA, which now provides for “Maintenance and furnishing of information and documents by certain persons” under section 92D.

The provisions of Rule 10DA are as follows:

Rule	Provision
10DA(1)	<p><u>Specification of threshold limits for the constituent entity of an international group to keep and maintain the information and documents of the international group:</u></p> <p>Every person, being a constituent entity of an international group shall –</p> <ol style="list-style-type: none"> (i) if the consolidated group revenue of the international group, of which such person is a constituent entity, as reflected in the consolidated financial statement of the international group for the accounting year, exceeds ₹ 500 crore; and (ii) the aggregate value of international transactions – <ol style="list-style-type: none"> (A) during the accounting year, as per the books of accounts, exceeds ₹ 50 crore, or (B) in respect of purchase, sale, transfer, lease or use of intangible property during the accounting year, as per the books of accounts, exceeds ₹ 10 crore <p>keep and maintain information and documents of the international group.</p> <p>Note – <i>The rate of exchange for the calculation of the value in rupees of the consolidated group revenue in foreign currency shall be the telegraphic transfer buying rate (TTBR) of such currency on the last day of the accounting year. [Rule 10DA(7)].</i></p> <p><i>Part A of Form No. 3CEAA (Master File), however, shall be furnished by every person, being a constituent entity of an international group, whether or not the above conditions are satisfied [Rule 10DA(3)].</i></p>

	<p><u>Information and documents of the international group required to be kept and maintained by the Constituent Entity:</u></p> <p>The constituent entity shall keep and maintain the following information and documents of the international group, namely:-</p> <ul style="list-style-type: none"> (a) a list of all entities of the international group along with their addresses; (b) a chart depicting the legal status of the constituent entity and ownership structure of the entire international group; (c) a description of the business of international group during the accounting year including,- <ul style="list-style-type: none"> (I) the nature of the business or businesses; (II) the important drivers of profits of such business or businesses; (III) a description of the supply chain for the five largest products or services of the international group in terms of revenue and any other products including services amounting to more than five per cent. of consolidated group revenue; (IV) a list and brief description of important service arrangements made among members of the international group, other than those for research and development services; (V) a description of the capabilities of the main service providers within the international group; (VI) details about the transfer pricing policies for allocating service costs and determining prices to be paid for intra-group services; (VII) a list and description of the major geographical markets for the products and services offered by the international group; (VIII) a description of the functions performed, assets employed and risks assumed by the constituent entities of the international group that contribute at least ten per cent. of the revenues or assets or profits of such group; and (IX) a description of the important business restructuring transactions, acquisitions and divestments; (d) a description of the overall strategy of the international group for the development, ownership and exploitation of intangible property, including location of principal research and development facilities and their management; (e) a list of all entities of the international group engaged in development and management of intangible property along with their addresses; (f) a list of all the important intangible property or groups of intangible property owned by the international group along with the names and addresses of the group entities that legally own such intangible property;
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	<ul style="list-style-type: none"> (g) a list and brief description of important agreements among members of the international group related to intangible property, including cost contribution arrangements, principal research service agreements and license agreements; (h) a detailed description of the transfer pricing policies of the international group related to research and development and intangible property; (i) a description of important transfers of interest in intangible property, if any, among entities of the international group, including the name and address of the selling and buying entities and the compensation paid for such transfers; (j) a detailed description of the financing arrangements of the international group, including the names and addresses of the top ten unrelated lenders; (k) a list of group entities that provide central financing functions, including their place of operation and of effective management; (l) a detailed description of the transfer pricing policies of the international group related to financing arrangements among group entities; (m) a copy of the annual consolidated financial statement of the international group; and (n) a list and brief description of the existing unilateral advance pricing agreements and other tax rulings in respect of the international group for allocation of income among countries.
10DA(2)	<p><u>Due date for furnishing report:</u></p> <p>The information and document shall be furnished in Form No. 3CEAA to the Joint Commissioner as may be designated by the Director General of Income-tax (Risk Assessment) and it shall be furnished on or before the due date for furnishing the return of income specified under section 139(1).</p>
10DA(4)/(5)	<p><u>Furnishing of report in case of more than one constituent entity:</u></p> <p>Where there are more than one constituent entities resident in India of an international group, then, the Form No 3CEAA may be furnished by any one constituent entity, if, -</p> <ul style="list-style-type: none"> (a) the international group has designated such entity for this purpose and (b) the information has been conveyed to the Joint Commissioner in Form No. 3CEAB, in this behalf at least 30 days before the due date of furnishing the Form No. 3CEAA.

10DA(6)	<p><u>Period for which such information and document to be kept or maintained:</u></p> <p>The information and documents shall be kept and maintained for a period of eight years from the end of the relevant assessment year.</p>
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Amendment in Rule 10DB

Section 286 contains the provisions for furnishing of report in respect of international group to the prescribed authority, in the prescribed form and manner, on or before the date as may be prescribed. Rule 10DB, for this purpose, prescribes the income-tax authority, Form No. and the due date for furnishing of report of the international group.

The CBDT has, vide this notification, amended Rule 10DB, w.e.f. 6.1.2020. Rule 10DB(1) now provides that the prescribed income-tax authority for the purposes of section 286 shall be the Joint Commissioner as may be designated by the Director General of Income-tax (Risk Assessment).

Rule 10DB(2) provides that the notification under section 286(1) shall be made in Form No. 3CEAC two months prior to the due date for furnishing of report as specified under section 286(2) (i.e., two months prior to the period of 12 months from the end of the relevant reporting year).

The proviso to section 286(4) provides that where there are more than one such constituent entities of the group, resident in India, the report has to be furnished by the constituent entity so designated by the international group, if the information has been conveyed in writing on behalf of the group to the prescribed authority.

Accordingly, sub-rule (5) to Rule 10DB has been substituted to provide that the information required to be conveyed under proviso to section 286(4) regarding the designated constituent entity shall be furnished in Form No. 3CEAE.

Note – (1) Extension of dates/due dates and other relaxations vide PIB Press Release dated 24.3.2020/Notification No. 35/2020 dated 24.6.2020 on account of COVID 19 pandemic are **not** applicable for November, 2020 examinations. Further, CBDT Circular No.11/2020 dated 8.5.2020 providing relaxation of residency conditions for P.Y.2019-20 for individuals stranded in India due to COVID-19 lockdown is **not** applicable.

(2) Direct Tax Vivad se Vishwas Act, 2020 and Rules, 2020 are **not** applicable for November, 2020 examination.

SECTION – B: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

From the options (a), (b), (c) and (d) given in each question, choose the most appropriate option.

1. The following are the details relating to four resident entities, AB & Co, LM & Co, PQ & Co and XY & Co. for P.Y.2019-20 –

	Particulars	AB & Co. (Firm)	LM & Co. (Firm)	PQ & Co. (LLP)	XY & Co. (Firm)
(1)	Nature of business/ profession	Retail trading	Business of plying, hiring or leasing goods carriages	Wholesale trading	Interior decoration
(2)	System of accounting	Mercantile	Cash	Mercantile	Cash
(3)	Turnover/Gross receipts	₹ 200 lakhs	₹ 101 lakhs	₹ 100 lakhs	₹ 50 lakhs
(4)	Amount received by way of RTGS/NEFT in the P.Y.2019-20 [included in (3) above]	₹ 150 lakhs	₹ 80 lakhs	₹ 70 lakhs	₹ 45 lakhs
(5)	Amount received by way of cash in the P.Y.2019-20 [included in (3) above]	₹ 30 lakhs	₹ 21 lakhs	₹ 10 lakhs	₹ 5 lakhs
(6)	Amount received by way of RTGS/NEFT between 1.4.2020 and 31.7.2020	₹ 20 lakhs	-	₹ 20 lakhs	-
(7)	Working partners' salary	₹ 5 lakhs	₹ 1.50 lakhs	₹ 3 lakhs	₹ 5 lakhs
(8)	Interest on capital@12% paid to partners	₹ 1 lakhs	₹ 0.50 lakhs	-	₹ 2 lakhs

(9)	Profit as per books of account maintained as per section 44AA [after deducting working partners' salary and interest on capital]	₹ 5.60 lakhs	₹ 4.10 lakhs	₹ 4.50 lakhs	₹ 20 lakhs
(10)	No. of vehicles owned	-	10 (See Note 2 below for details)	-	-

Notes – (1) It may be assumed that partners' salary and interest are authorised by the partnership deed, relates to a period after the partnership deed and is within the permissible limits laid down under section 40(b).

(2) The details of vehicles owned by M/s. LM & Co. are as follows –

	Gross Vehicle Weight (in kgs)	Number	Date of purchase	Date when first put to use
(1)	8,000	3	28.5.2019	1.6.2019
(2)	9,000	2	31.7.2019	1.8.2019
(3)	10,000	1	17.8.2019	20.8.2019
(4)	11,000	1	30.9.2019	1.10.2019
(5)	12,000	1	11.11.2019	13.11.2019
(6)	13,000	2	31.12.2019	1.1.2020

From the details given above, choose the most appropriate option to the questions given below:

- (i) Which of the four entities are eligible to declare income on presumptive basis under the Income-tax Act, 1961 for A.Y.2020-21?
 - (a) Only AB & Co and LM & Co
 - (b) Only AB & Co and XY & Co.
 - (c) AB & Co, PQ & Co and XY & Co.
 - (d) AB & Co, LM & Co and XY & Co.
- (ii) What is the business income to be declared by AB & Co. and PQ & Co. for A.Y.2020-21, assuming that the entities wish to make maximum tax savings without getting their books of account audited?
 - (a) ₹ 12.60 lakhs and ₹ 4.50 lakhs, respectively
 - (b) ₹ 6.60 lakhs and ₹ 3.20 lakhs, respectively
 - (c) ₹ 5.60 lakhs and ₹ 4.50 lakhs, respectively

- (d) ₹ 13 lakhs and ₹ 6.60 lakhs, respectively
- (iii) What is the business income to be declared by LM & Co. for A.Y.2020-21, assuming that the firm wishes to make maximum tax savings without getting its books of account audited?
- (a) ₹ 4,48,000
(b) ₹ 3,65,500
(c) ₹ 4,36,500
(d) ₹ 4,10,000
- (iv) What is the income to be declared by XY & Co. under the head “Profits and gains of business or profession” for A.Y.2020-21, assuming that the firm wishes to make maximum tax savings, without getting its books of accounts audited?
- (a) ₹ 18 lakhs
(b) ₹ 20 lakhs
(c) ₹ 25 lakhs
(d) ₹ 22.50 lakhs
- (v) Would your answer to sub-parts (iii) and (iv) change, if the firms decide to get their books of accounts audited?
- (a) No, there would be no change in the answer to either sub-part (iii) or sub-part (iv)
(b) Yes, there would be change in answer to both sub-parts (iii) and (iv)
(c) There would be a change in the answer to sub-part (iii) but not in the answer to sub-part (iv)
(d) There would be a change in the answer to sub-part (iv) but not in the answer to sub-part (iii)
2. Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 100 lakh on 1.1.2020, when the stamp duty value was ₹ 120 lakh. The agreement was, however, entered into on 1.9.2019 when the stamp duty value was ₹ 105 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by NEFT from Mr. Rajesh on the date of agreement. Mr. Hari has purchased the building for ₹ 50 lakh on 12.7.2018.
- Mr. Ravi, a retail trader sold a residential house to Mr. Vallish, a wholesale trader for ₹ 50 lakh on 1.2.2020, when the stamp duty value was ₹ 70 lakh. The agreement was, however, entered into on 1.8.2019 when the stamp duty value was ₹ 55 lakh. Mr. Ravi had received a down payment of ₹ 5 lakh by a crossed cheque from Mr. Vallish on the date of agreement. Mr. Ravi has purchased the building for ₹ 32 lakh on 17.8.2018.

Based on the above facts, choose the most appropriate option to the questions given below—

- (i) What is the amount of income chargeable to tax in the hands of Mr. Hari in respect of the above transaction and under which head is it taxable?
- (a) ₹ 70 lakh is taxable as his business income
 - (b) ₹ 55 lakh is taxable as his business income
 - (c) ₹ 50 lakh is taxable as his business income
 - (d) ₹ 50 lakh is taxable as short-term capital gains
- (ii) Is any amount taxable in the hands of Mr. Rajesh in respect of the above transaction? If so, what is the amount and under which head is it taxable?
- (a) No amount is taxable in the hands of Mr. Rajesh
 - (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"
 - (c) ₹ 5 lakh is taxable under the head "Income from Other Sources"
 - (d) ₹ 5 lakh is taxable as his business income.
- (iii) What is the amount of income chargeable to tax in the hands of Mr. Ravi in respect of the above transaction and under which head is it taxable?
- (a) ₹ 18 lakh is taxable as short-term capital gains
 - (b) ₹ 23 lakh is taxable as short-term capital gains
 - (c) ₹ 38 lakh is taxable as short-term capital gains
 - (d) ₹ 38 lakh is taxable as his business income.
- (iv) Is any amount taxable in the hands of Mr. Vallish in respect of the above transaction? If so, what is the amount and under which head is it taxable?
- (a) No amount is taxable in the hands of Mr. Vallish
 - (b) ₹ 20 lakh is taxable under the head "Income from Other Sources"
 - (c) ₹ 5 lakh is taxable under the head "Income from Other Sources"
 - (d) ₹ 5 lakh is taxable as his business income.
- (v) Is tax deductible by Mr. Rajesh and Mr. Vallish on making payment to the seller?
- (a) Yes, tax is deductible at source by both Mr. Rajesh and Mr. Vallish
 - (b) No, tax is not deductible at source by either Mr. Rajesh or Mr. Vallish
 - (c) Tax is deductible at source by Mr. Rajesh but not by Mr. Vallish
 - (d) Tax is deductible at source by Mr. Vallish but not Mr. Rajesh
3. The following are the particulars relating to four Indian companies, namely, A Ltd., B Ltd., C Ltd. and D Ltd. –

Particulars	A Ltd.	B Ltd.
Date of setting up/ registration	1.9.2019	1.11.2019
Main object	Manufacture of steel	Manufacture of apparel
Place	Madhya Pradesh	Warangal in Telengana
Value of new plant and machinery installed and put to use on the date of setting up of the company	₹ 10 crore	₹ 4 crore
Gross Total Income of P.Y.2019-20	₹ 4.90 crore	₹ 2.80 crore
Particulars of new employees employed during the P.Y.2019-20		
No. of new employees employed on the date of setting up of the company	1000	1000
Monthly emoluments to employees by account payee cheque:		
500 employees	₹ 24,000 per employee	₹ 24,000 per employee
500 employees	₹ 25,100 per employee	₹ 26,000 per employee
Particulars	C Ltd.	D Ltd.
Date of setting up/ registration	1.4.2000	1.1.2005
Main object	Trading of leather goods	Trading of food grains
Place	Tamil Nadu	Karnataka
Turnover of P.Y.2015-16	₹ 347 crore	₹ 201 crore
Turnover of P.Y.2016-17	₹ 395 crore	₹ 225 crore
Turnover of P.Y.2017-18	₹ 499 crore	₹ 251 crore
Turnover of P.Y.2018-19	₹ 350 crore	₹ 342 crore
Turnover of P.Y.2019-20	₹ 424 crore	₹ 380 crore
Details of income returned & assessed for A.Y.2020-21		
As per return of income filed	₹ 14 crores	₹ 17 crores
Income determined u/s 143(1)(a)	₹ 16 crores	₹ 20 crores
Income assessed u/s 143(3)	₹ 20 crores	₹ 22 crores

From the above details choose the most appropriate answer to the following questions –

- (i) What would be the tax liability of B Ltd. for A.Y.2020-21, if it avails the beneficial tax rates under the special provisions inserted by the Taxation Laws (Amendment) Act, 2019 in the Income-tax Act, 1961 by fulfilling the conditions specified thereunder? Assume that the gross total income reflects the computation under the special provisions.
- (a) ₹ 70,47,040
 - (b) ₹ 22,88,000
 - (c) ₹ 25,16,800
 - (d) ₹ 17,16,000
- (ii) What would be the tax liability of A Ltd. for A.Y.2020-21, if it avails the beneficial tax rates under the special provisions inserted by the Taxation Laws (Amendment) Act, 2019 in the Income-tax Act, 1961 by fulfilling the conditions specified thereunder? Assume that the gross total income reflects the computation under the special provisions.
- (a) ₹ 1,23,32,320
 - (b) ₹ 40,84,040
 - (c) ₹ 59,89,984
 - (d) ₹ 84,08,000
- (iii) What would be the tax liability of A Ltd. and B Ltd. for A.Y.2020-21, if they do not opt for the special provisions inserted by the Taxation Laws (Amendment) Act, 2019 in the Income-tax Act, 1961? Assume that the gross total income reflects the computation under the special provisions. Ignore MAT.
- (a) ₹ 9,88,000; ₹ 7,80,000
 - (b) ₹ 11,85,600; ₹ 9,36,000
 - (c) ₹ 96,81,360; ₹ 9,36,000
 - (d) ₹ 96,81,360; Nil
- (iv) What would be the quantum of penalty payable by C Ltd. under section 270A, assuming that the under-reporting of income is not due to mis-reporting and none of the additions made in the assessment qualifies under section 270A(6)? Assume that C Ltd. has not opted for the special provisions inserted by the Taxation Laws (Amendment) Act, 2019.
- (a) ₹ 58,24,000
 - (b) ₹ 69,88,800
 - (c) ₹ 87,36,000
 - (d) ₹ 1,04,83,200

- (v) What would be the quantum of penalty payable by D Ltd. under section 270A, assuming that the under-reporting of income is due to mis-reporting? Assume that D Ltd. has not opted for the special provisions inserted by the Taxation Laws (Amendment) Act, 2019.
- (a) ₹ 1,16,48,000
 - (b) ₹ 1,39,77,600
 - (c) ₹ 2,91,20,000
 - (d) ₹ 3,49,44,000
4. A Ltd., an Indian company, bought back its listed shares from its shareholders and B Ltd., an Indian company, bought back its unlisted shares from its shareholders in the month of March, 2020. What are the tax consequences of such buyback in the hands of A Ltd., B Ltd. and the shareholders?
- (a) Additional income-tax @23.296% of the distributed income is leviable in the hands of A Ltd. and B Ltd.; income arising to shareholders is exempt.
 - (b) Income arising to shareholders from buyback is taxable in their individual hands; No distribution tax is leviable in the hands of A Ltd. and B Ltd.
 - (c) Additional income-tax @23.296% of the distributed income is leviable in the hands of A Ltd.; income arising to shareholders of B Ltd. is taxable in their individual hands
 - (d) Additional income-tax @23.296% of the distributed income is leviable in the hands of B Ltd.; income arising to shareholders of A Ltd. is taxable in their individual hands
5. Mr. Ganesh and Mr. Rajesh, resident Indians aged 60 years and 80 years, respectively, have not furnished their returns of income for the P.Y.2019-20. However, the total income assessed in respect of such year under section 144 is ₹ 8 lakhs and ₹ 5 lakhs, respectively. Is penalty leviable under section 270A, and if so, what is the quantum of penalty?
- (a) No penalty is leviable under section 270A in the hands of either Mr. Ganesh or Mr. Rajesh
 - (b) Yes; ₹ 36,400 and ₹ 5,200, respectively
 - (c) Yes; ₹ 37,700 and ₹ 6,500, respectively
 - (d) Penalty of ₹ 36,400 leviable in the hands of Mr. Ganesh; No penalty leviable in the hands of Mr. Rajesh.
6. Ms. X & Co and Ms. Y & Co are non-resident firms in receipt of fees for technical services of ₹ 20 lakhs each in the P.Y.2019-20 from an Indian company, A Ltd. in pursuance of an agreement with A Ltd. approved by the Central Government. M/s. X & Co. does not have any fixed place of profession in India whereas M/s. Y & Co. has a fixed place of profession in India and the contract is effectively connected with such fixed place of profession. The revenue expenditure incurred by X & Co. to earn FTS is ₹ 2 lakhs. The following are the details pertaining to Y & Co.-

Particulars	Amount (₹)
Revenue expenditure incurred to earn FTS	3.50 lakhs
Expenditure wholly and exclusively connected with fixed place of profession in India (Out of the above amount)	3 lakhs
Amount paid by fixed place of profession to Head Office otherwise than towards reimbursement of actual expenses (not included in above amounts)	1 lakh
Books of account maintained u/s 44AA	Yes
Books of account audited and audit report furnished with return of income	Yes

What is the tax liability in India of M/s. X & Co. and M/s. Y & Co. for P.Y.2019-20 in respect of fees for technical services?

- (a) ₹ 5,61,600 and ₹ 4,99,200
 (b) ₹ 1,87,200 and ₹ 5,30,400
 (c) ₹ 2,08,000 and ₹ 5,30,400
 (d) ₹ 1,87,200 and ₹ 1,76,800

7. A Ltd., an Indian company, borrowed money from B Inc. in Country B, C Ltd. in Country C, D Inc. in Country D and E Ltd. in Country E, the details of which are given hereunder-

Lender	Amount borrowed by A Ltd.	Interest paid in the P.Y.2019-20	Is it an Associated Enterprise of A Ltd.?
B Inc.	₹ 15 crores	₹ 1.50 crores	Yes
C Ltd.	₹ 25 crores	₹ 2.50 crores	No
D Inc.	₹ 25 crores	₹ 2.50 crores	Yes
E Ltd.	₹ 15 crores	₹ 1.50 crores	No

B Inc. has provided guarantee of loan taken by A Ltd. from C Ltd. D Inc. has deposited ₹ 15 crores with E Ltd. Earnings before Interest, Tax and Depreciation of A Ltd. for A.Y.2020-21 is ₹ 10 crores. What is the interest to be disallowed under section 94B for A.Y.2020-21?

- (a) ₹ 1 crore
 (b) ₹ 3 crores
 (c) ₹ 4 crores
 (d) ₹ 5 crores
8. M Ltd. and N Ltd. are Indian companies which have to pay interest of ₹ 2 lakhs and ₹ 1 lakh outside India to Mr. P, a non-resident, during the P.Y.2019-20 on rupee denominated

bonds issued in January, 2019 and April, 2019, respectively. Which of the following statements are correct relating to liability of M Ltd. and N Ltd. to deduct tax at source on such interest payable to Mr. P?

- (a) Both M Ltd. and N Ltd. do not have to deduct tax at source on such interest
 - (b) Both M Ltd. and N Ltd. have to deduct tax at source@5.2%
 - (c) M Ltd. does not have to deduct tax at source but N Ltd. has to deduct tax at source@5.2%
 - (d) N Ltd. does not have to deduct tax at source but M Ltd. has to deduct tax at source@5.2%
9. Under which of the following cases, will arm's length price be determined by considering the median of the dataset?

Case	Most Appropriate Method	No. of entries in the dataset	Does the price at which the transaction is undertaken fall within the arm's length range beginning from the 35 th percentile of the dataset and ending on the 65 th percentile of the dataset?
I	CUP	5	-
II	RPM	6	Yes
III	TNMM	7	Yes
IV	Cost Plus	8	No

- (a) II and III
 - (b) I and IV
 - (c) Only IV
 - (d) Only I
10. Mr. Akash made the following cash withdrawals during the P.Y.2019-20 -

Date	Amount	From
1.6.2019	₹ 70 lakhs	Bank of India
1.7.2019	₹ 45 lakhs	Standard Chartered Bank (SCB)
1.8.2019	₹ 50 lakhs	Bank of India
1.9.2019	₹ 15 lakhs	SCB
1.10.2019	₹ 60 lakhs	Repco Bank (Co-operative Bank)
1.11.2019	₹ 10 lakhs	SBI

1.12.2019	₹ 10 lakhs	Repco Bank
2.1.2020	₹ 15 lakhs	SCB
10.1.2020	₹ 15 lakhs	SCB
20.1.2020	₹ 20 lakhs	Repco Bank
1.2.2020	₹ 15 lakhs	Repco Bank
10.2.2020	₹ 75 lakhs	SBI
20.2.2020	₹ 15 lakhs	SCB
1.3.2020	₹ 15 lakhs	SBI

Which of the above payers are required to deduct tax at source on cash withdrawals made by Mr. Akash in the P.Y.2019-20?

- (a) Bank of India & SCB
 - (b) SCB, SBI & Repco
 - (c) SCB, Repco & Bank of India
 - (d) SCB & Repco
11. Which of the following orders are **not** appealable before Commissioner (Appeals)?
- (a) An order of penalty under section 271B for failure to get accounts audited.
 - (b) An order made under section 163 treating the assessee as an agent of a non-resident.
 - (c) An order of assessment passed by the Assessing Officer in pursuance of directions of Dispute Resolution Panel
 - (d) An order made under section 201 deeming a person to be an assessee-in-default for non-deduction of tax at source
12. Which of the following statements are correct in relation to the power of an income-tax authority to collect information which may be useful for the purposes of the Income-tax Act, 1961?
- (i) The income-tax authority can enter the place of business of the assessee only after sunrise and before sunset
 - (ii) The income-tax authority may enter the place of business only during the hours at which such place is open for conduct of business
 - (iii) The income-tax authority may impound and retain in his custody for a period not exceeding 15 days books of account or other documents inspected by him. If he wishes to retain for a period exceeding 15 days, he has to take the prior approval of Principal Chief Commissioner or Chief Commissioner.

- (iv) The income-tax authority can on no account remove or cause to be removed from the building or place he has entered any books of account or other documents.

The correct answer is -

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

DESCRIPTIVE QUESTIONS

13. ABC Ltd. had started availing exemption under section 80-IC on setting up of a new industrial unit in Himachal Pradesh in April, 2011 to manufacture sports equipment. The company had availed deduction of 100% of profits for a period of 5 years from A.Y.2012-13 to A.Y.2016-17. For A.Y.2017-18 to A.Y.2021-22, in the normal course, deduction would be admissible at 30% of the profits and gains. However, in the P.Y.2016-17, ABC Ltd. carried out substantial expansion of its existing unit by increasing its investment in plant and machinery by 60% of the book value of plant and machinery as on 1.4.2016. From A.Y.2017-18, ABC Ltd. claimed deduction at 100% of profits, instead of 30%, on the basis of the Supreme Court ruling in *Pr. CIT v. Aarham Softronics (2019) 412 ITR 623*, that a fresh period of 5 years, qualifying for deduction@100% of profits and gains, would commence from the year of substantial expansion. Is the claim of ABC Ltd. valid? Discuss.
14. PQR Ltd, a company manufacturing footwear and leather products for the past ten years, had a net profit of ₹ 544 lakhs as per the statement of profit and loss for the year ended 31st March, 2020. The company was subject to tax audit under section 44AB. The net profit is arrived at after debiting or crediting the following amounts:
- (i) Depreciation as per Companies Act, 2013 is ₹ 64 lakhs.
 - (ii) A sundry creditor whose dues of ₹ 64 lakhs were outstanding since long time, has been settled for ₹ 52 lakhs on 31st March, 2020 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.
 - (iii) Employers' contribution of ₹ 6 lakhs to EPF for the month of March, 2020 was deposited on 30th June, 2020.
 - (iv) Interest payments debited ₹ 60 lakhs (Includes interest on term loan of ₹ 50 lakhs availed on 1-4-2019 at interest rate of 12% p.a. towards purchase of machinery during the year).
 - (v) Payment of ₹ 20 lakhs without deduction of tax to XYZ & Co., a sub-contractor, for processing raw leather supplied by PQR Ltd. is debited to statement of profit & loss.

Additional Information:

- (1) The company has not made provision for an amount of ₹ 24 lakhs being a fair estimate of the amount as payable to workers towards periodical wage revision once in 3 years in respect of existing employees. The provision is estimated on a reasonable certainty of the revision once in 3 years.
- (2) The written down values of assets before allowing depreciation as per Income-tax Rules are as under:

Factory Buildings:	₹ 360 lakhs;
Plant & Machinery:	₹ 340 lakhs (inclusive of machinery costing ₹ 60 lakhs acquired on 1.4.2019 and put to use on 1.11.2019)
Computers:	₹ 30 lakhs

It may be noted that the above values have been duly recognised while providing depreciation in the books of accounts.
- (3) During the year 2019-20, the company has employed 24 additional employees (qualified as "workman" under the Industrial Disputes Act, 1947). All these employees contribute to a recognized provident fund. 12 out of 24 employees joined on 1.6.2019 on a salary of ₹ 23,000 per month, 4 joined on 1.7.2019 on a salary of ₹ 25,500 per month, and 8 joined on 1.11.2019 on a salary of ₹ 20,000 per month. The salaries of 2 employees who joined on 1.6.2019 are being settled by bearer cheques every month.
- (4) Employees contribution to EPF of ₹ 3 lakhs recovered from their salaries for the month of March 2020 and shown in the Balance Sheet under the head Sundry Creditors was remitted on 31st July, 2020.

Compute the total income and tax liability of PQR Ltd. for the Assessment Year 2020-21. The turnover of the company for the year ended 31.3.2018 was ₹ 251 crores. Ignore the provisions of MAT. Assume that the company does not opt for the special provisions inserted by the Taxation Laws (Amendment) Act, 2019.

15. Sowbaghya, a charitable trust, is registered under section 12AA of the Act. On 1.4.2019, it got merged with M/s. LMN (P) Ltd., which is a company engaged in manufacturing of furniture. All the assets and liabilities of the erstwhile trust became the assets and liabilities of M/s. LMN (P) Ltd. which is not entitled for registration under section 12AA. The trust appointed a registered valuer for the valuation of its assets and liabilities. From the following particulars (including the valuation report), calculate the tax liability in the hands of the trust arising as a result of such merger, giving reasons for treatment of each item:
 - (i) Stamp duty value of land held ₹ 30 lakhs. However; if this land is sold in the open market, it would ordinarily fetch ₹ 34 lakhs. The book value of the land is ₹ 40 lakhs.

- (ii) 75,000 equity shares in XYZ Ltd. traded in National Stock Exchange. The lowest price per share on 1.4.2019 was ₹ 150 and the highest price on that day was ₹ 170. The book value was ₹ 134 lakhs.
 - (iii) 55,000 preference shares held in ABC Ltd. The shares will fetch ₹ 88 lakhs, if they are sold in the open market on 1.4.2019. Book value was ₹ 50 Lakhs.
 - (iv) Corpus fund as on 1.4.2019 ₹ 30 Lakhs.
 - (v) Outside liabilities ₹ 180 lakhs
 - (vi) Provision for taxation ₹ 10 lakhs.
 - (vii) Liabilities in respect of payment of various utility bills ₹ 12 lakhs.
16. Mr. Suresh aged 60 years, is a resident and ordinarily resident in India for the A.Y. 2020-21. He owns an apartment in Sharjah, U.A.E., which he purchased on 1.4.2008, and he also has a bank account in the Bank of Sharjah.
- (a) Mr. Suresh contends that since his total income of ₹ 3,00,000 for the P.Y.2019-20, comprising of income from house property and bank interest, is less than the basic exemption limit, he need not file his return of income for A.Y.2020-21.
 - (b) Mr. Suresh also contends that the notice issued by the Assessing Officer under section 148 in September, 2019 for A.Y.2009-10 is not valid due to the following reasons –
 - (i) There is no escaped income relating to that year; and
 - (ii) The time period prescribed in section 149 for issuing notice under section 148 for A.Y.2009-10 has since lapsed.

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

17. M/s. Himalaya LLP filed its return of income for the A.Y. 2018-19 on 23-07-2018. The assessment u/s 143(3) was completed on 27th April, 2019. The Assessing Officer made two additions to the income of the LLP, namely, ₹ 20 lakhs towards unexplained investment u/s 69 and ₹ 3 lakhs u/s 40(b) due to excess interest paid to partners.

The LLP, being aggrieved, contested the addition of ₹ 20 lakhs under section 69 and filed an appeal before the Commissioner (Appeals). The appeal was decided on 12th February, 2021 against the LLP.

In March, 2021, the LLP approaches you to know whether it should apply for revision to Principal Commissioner u/s 264 or for rectification u/s 154 to the Assessing Officer as regards disallowance u/s 40(b). You are required to advise the LLP, keeping in mind the relevant provisions of income-tax law.

18. Is issue of notice under section 143(2) mandatory for making a regular assessment under section 143(3)? Can failure on the part of the Assessing Officer to issue notice under section 143(2) be treated as a defect curable under section 292BB, if the assessee

participates in assessment proceedings? Discuss, with the aid of a recent Supreme Court ruling.

19. Mr. Hari, a resident aged 42 years is a salaried employee employed with Omega P Ltd. He received the following components of his salary income during the previous year 2019-20.

Basic Salary	₹ 60,000 p.m.
Dearness Allowance	12% of basic salary
Transport Allowance	₹ 10,000 p.m.
Medical Allowance	₹ 5,000 p.m.

He contributed ₹ 18,000 to approved Pension Fund of LIC. He also paid ₹ 2,00,000 by crossed cheque for mediclaim premium to insure the health of his mother, a resident aged 61 years, who is not dependent on him as a lumpsum payment for 5 years including the current previous year.

He also delivered guest lecture in a reputed university in Country X during the year. He received ₹ 8,00,000 from such university after deduction of tax of ₹ 2,00,000 in Country X. India does not have any double taxation avoidance agreement under section 90 of the Income-tax Act, 1961, with Country X. Compute the tax liability of Mr. Hari for the A.Y. 2020-21.

20. Examine whether transfer pricing provisions under the Income-tax Act, 1961 would be attracted in respect of the following cases -
- Transfer of process patents by Rho Ltd., an Indian company, to ABC Inc., a US company, which guarantees 12% of the borrowings of Rho Ltd.
 - Marketing management services provided by Athena, a Greece company to Alpha Ltd., an Indian company. Athena is a "specified foreign company" as defined in section 115BBD, in relation to Alpha Ltd.
 - Gamma Ltd., an Indian company, has two units, Delta & Phi. Unit Delta, which commenced business four years back, is engaged in the development of a highway project, for which purpose an agreement has been entered into with the Central Government. Unit Phi is carrying on the business of trading in steel. Unit Phi transfers 25,000 metric tons of steel of the value of ₹ 30,000 per MT to Unit Delta for ₹ 20,000 per MT.
 - Purchase of machinery by Beta Ltd., an Indian company, from Huff AG, a German company. Beta Ltd. is the subsidiary of Huff AG.

MOST APPROPRIATE OPTION – OBJECTIVE TYPE QUESTIONS

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	d
	(ii)	a
	(iii)	c
	(iv)	c
	(v)	b
2.	(i)	c
	(ii)	a
	(iii)	c
	(iv)	b
	(v)	a
3.	(i)	d
	(ii)	a
	(iii)	d
	(iv)	b
	(v)	a

MCQ No.	Most Appropriate Answer
4.	a
5.	d
6.	c
7.	d
8.	c
9.	c
10.	d
11.	c
12.	d

ANSWERS TO DESCRIPTIVE QUESTIONS

13. Section 80-IC applies to an undertaking or enterprise which has begun or begins to manufacture any specified article or thing therein by setting up a new factory in special category States, which includes the State of Himachal Pradesh. As per section 80-IC(3), the category of undertakings or enterprises to which the assessee belongs, is entitled to deduction@100% of profits and gains for 5 assessment years commencing from the “initial assessment year” and, thereafter, deduction@25% of profits and gains (30% of profits and gains in case of a company) for the next 5 assessment years. As per section 80-IC(6), the total period of deduction is, however, capped at 10 assessment years.

As per sub-clause (v) of section 80-IC(8), “**initial assessment year**” means the assessment year relevant to the previous year in which the undertaking or the enterprise:

- (1) begins to manufacture or produce articles or things, or
- (2) commences operation or
- (3) completes substantial expansion.

As per sub-clause (ix) of section 80-IC(8), “**Substantial expansion**” means increase in the investment in the plant and machinery by at least 50% of the book value of plant and

machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is undertaken.

Section 80-IC(2)(b)(ii) requires that the undertaking or enterprise should begin to manufacture or produce any article or thing specified in the Fourteenth Schedule or commence operation specified in that Schedule and undertake substantial expansion during the period between 7.1.2003 and 31.3.2012 in the State of Himachal Pradesh.

This issue of whether deduction@100% of profits and gains under section 80-IC can be claimed for a fresh period where an entity has already claimed deduction@100% of profits and gains for a period of five years came up before the Supreme Court in *Pr. CIT v. Aarham Softtronics* [2019] 412 ITR 623. The Apex Court noted that as per the definition of "initial assessment year", the first two events i.e., the previous year in which the undertaking or the enterprise begins to manufacture or produce article or things; or commences operation are relatable to new units, whereas third incident i.e., completes substantial expansion, would occur in respect of existing units. The benefit of section 80-IC is, thus, admissible not only when an undertaking or enterprise sets up new unit and starts manufacturing or producing article or things. The advantage of this provision also accrues to existing units, if they carry out "substantial expansion" of their units by investing required capital, in the assessment year relevant to the previous year.

The Apex Court also observed that the various provisions of section 80-IC should be read conjointly, i.e., sub-section (2)(b)(ii), sub-section (3)(ii), sub-section (6) and sub-section (8)(v) and (ix). Sub-section (3) enumerates the deduction, as being 100% of profits and gains for the first 5 initial assessment years commencing with the initial assessment year and thereafter, 25% (or 30% where the assessee is a company) of the profits and gains. The deduction at 25% or 30% for the next 5 years is on the assumption that the new unit remains static in so far as expansion thereof is concerned. However, the moment "substantial expansion" takes place, another "initial assessment year" gets triggered. This new event entitles that unit to start getting deduction at 100% of the profits and gains. At the same time, new period of 10 years does not start, on account of the cap under sub-section (6) of section 80-IC. Thus, the total period for which deduction can be allowed is capped at 10 years, however, there is no cap on quantum.

However, the substantial expansion should have also taken place on or before 31.3.2012 as per section 80-IC(2)(b)(ii), for the entity to be entitled to benefit of 100% deduction for a fresh period on the basis of such substantial expansion. In this case, however, the substantial expansion took place after 31.3.2012, in the P.Y.2016-17. Hence, the rationale of the above Supreme Court ruling cannot be applied to the case on hand, since the condition laid down in section 80-IC(2)(b)(ii) is **not** satisfied. The claim of ABC Ltd. is, therefore, **not** correct. **Accordingly, even though it has undertaken "substantial expansion" during the P.Y.2016-17, it would be entitled to a deduction of only 30% of profits and gains from A.Y.2017-18 to A.Y.2021-22.**

14. Computation of Total Income of PQR Ltd. for the A.Y. 2020-21

Particulars	Amount (₹)	
Net profit as per the statement of profit and loss		5,44,00,000
Add: Items debited but to be considered separately or to be disallowed		
(i) Depreciation charged as per Companies Act, 2013	64,00,000	
(iii) Employer's contribution to EPF [As per section 43B, employers' contribution to EPF is allowable as deduction, since the same has been deposited on or before the 'due date' of filing of return under section 139(1) i.e., 30.9.2020. Since the same has been debited to statement of profit and loss, no further adjustment is necessary]	Nil	
(iv) Interest on term loan for purchase of plant and machinery [₹ 50 lakhs x 12% x 7/12] [As per the proviso to section 36(1)(iii), interest paid in respect of capital borrowed for acquisition of an asset for the period from the date of borrowing till the date on which such asset is first put to use shall not be allowed as deduction. Since the same has been debited to statement of profit and loss, it has to be added back while computing business income]	3,50,000	
(v) Payment to XYZ & Co., a sub-contractor, without deduction of tax [30% of ₹ 20 lakh] [Under section 40(a)(ia), 30% of any sum paid to any resident on which tax is deductible is disallowed if tax is not deducted at source. In this case, TDS provisions under section 194C are attracted on payment for processing of raw material. Since tax has not been deducted on such payment, 30% of the expenditure shall be disallowed]	6,00,000	
		73,50,000
Add: Amount taxable but not credited to statement of profit and loss		6,17,50,000
AI(5) Employee's contribution to EPF		3,00,000

<p>[Any sum received by the assessee from his employees as contribution to any provident fund is treated as income of the assessee. Since employees contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction as per section 36(1)(va)¹.]</p>		
<p>Less: Items credited to statement of profit and loss, but not includible in business income / permissible expenditure and allowances</p>		6,20,50,000
<p>(ii) Waiver of sundry creditor's outstanding amount</p> <p>[Waiver of ₹ 12,00,000 from the sundry creditors is a benefit in respect of a trading-liability by way of remission or cessation thereof and is, hence, taxable under section 41(1). Since the amount is already credited to statement of profit & loss, no adjustment is necessary]</p>	Nil	
<p>AI (1) Provision for wages payable to workers</p> <p>[The provision based on fair estimate of wages and reasonable certainty of revision is allowable as deduction, since ICDS X requires 'reasonable certainty' for recognition of a provision, which is present in this case. As the provision has not been debited to statement to profit and loss, the same has to be reduced while computing business income]</p>	24,00,000	<p>24,00,000</p> <p>5,96,50,000</p>

¹ Employee contribution to PF deposited after the due date under PF Act is not allowable as deduction as per section 36(1)(va). This view has been affirmed by the Gujarat High Court in *CIT v. Gujarat State Road Transport Corporation* (2014) 366 ITR 170. Alternate view that the same is allowable as deduction if deposited on or before the due date of filing of return is possible as per the Delhi High Court ruling in *CIT v. AIMIL* (2010) 321 ITR 508 and the Uttarakhand High Court ruling in the case of *CIT v. Kichha Sugar Co. Ltd.* (2013) 356 ITR 351.

Less: Depreciation as per Income-tax Rules, 1962		
A(2) Depreciation under section 32		
Depreciation on factory building [10% of ₹ 360 lakh]	36,00,000	
Depreciation on plant and machinery		
- Depreciation@7.5% on ₹ 63.50 lakhs [₹ 60 lakh, being machinery cost + ₹ 3.50 lakh, being interest from 1.4.2019 to 31.10.2019] since machinery is put to use for less than 180 days].	4,76,250	
- Depreciation@15% on ₹ 280 lakh [₹ 340 lakh – ₹ 60 lakh]	42,00,000	
- Depreciation on computers [40% of ₹ 30 lakh]	<u>12,00,000</u>	
	94,76,250	
<i>Add: Additional depreciation @10% on ₹ 63.50 lakh, since machinery is put to use for less than 180 days</i>	<u>6,35,000</u>	<u>1,01,11,250</u>
Gross Total Income		4,95,38,750
Less: Deduction under Chapter VI-A		
Under section 80JJAA [See Working Note below]		9,30,000
Total Income		4,86,08,750

Computation of tax payable by PQR Ltd. for the A.Y. 2020-21

Particulars	₹
Tax payable on ₹ 4,86,08,750@25%, since the turnover of the company for the P.Y. 2017-18 does not exceed ₹ 400 crores	1,21,52,188
<i>Add: Surcharge@7% (since the total income of the company exceeds ₹ 1 crore but does not exceed ₹ 10 crore)</i>	8,50,653
	1,30,02,841
<i>Add: Health and education cess@4%</i>	5,20,114
Tax liability	1,35,22,954
Tax liability (Rounded off)	1,35,22,950

Working Note: Computation of deduction under section 80JJAA

PQR Ltd. is eligible for deduction u/s 80JJAA since the company is subject to tax audit under section 44AB for A.Y.2020-21 and has employed "additional employees" during the P.Y.2019-20.	
Number of additional employees	
Total number of employees employed during the year	24

Less: Employees employed on 1.7.2019, since their total monthly emoluments > ₹ 25,000	4
Employees employed on 1.6.2019 whose emoluments are paid by bearer cheque	<u>2</u>
Number of additional employees [10 employees employed on 1.6.2019 and 8 employed on 1.11.2019]	<u>18</u>
Additional employee cost	₹ 31,00,000
₹ 23 lakh, being ₹ 23,000 × 10 × 10 + ₹ 8 lakh, being ₹ 20,000 × 5 × 8	
Deduction under section 80JJAA [30% of ₹ 31 lakh]	9,30,000

15. As per section 115TD, the accreted income of "Sowbaghya", a charitable trust, registered under section 12AA which is merged with M/s LMN (P) Ltd., an entity not entitled for registration under section 12AA, would be chargeable to tax at maximum marginal rate@34.944% [30% plus surcharge @12% plus cess@4%].

Computation of accreted income and tax liability in the hands of the trust arising as a result of merger with LMN (P) Ltd. for A.Y. 2020-21

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2019, being the specified date (date of merger)	2,42,00,000
[See Working Note 1]	
Less: Total liability computed in accordance with the prescribed method of valuation	<u>1,92,00,000</u>
[See Working Note 2]	
Accreted Income	<u>50,00,000</u>
Tax Liability @ 34.944% of ₹ 50,00,000	17,47,200
Working Notes:	
(1) Aggregate fair market value of total assets on the date of merger	
- Land, being an immovable property	34,00,000
[The fair market value of land would be higher of ₹ 34 lakhs i.e., price that the land would ordinarily fetch if sold in the open market and ₹ 30 lakhs, being stamp duty value as on the specified date]	
- Quoted equity shares in XYZ Ltd. [75,000 x ₹ 160 per share] [₹ 160 per share, being the average of the lowest (₹ 150) and highest price (₹ 170) of such shares on the date of merger]	1,20,00,000

<ul style="list-style-type: none"> - 55,000 preference shares of ABC Ltd. [The fair market value which it would fetch if sold in the open market on the date of merger i.e. FMV on 1.4.2019] 	<u>88,00,000</u> 2,42,00,000
(2) Total liability	
<ul style="list-style-type: none"> - Outside liabilities 	1,80,00,000
<ul style="list-style-type: none"> - Corpus Fund of ₹ 30 lakhs [not includible] 	-
<ul style="list-style-type: none"> - Provision for taxation ₹ 10 lakhs [not includible] 	-
<ul style="list-style-type: none"> - Liabilities in respect of payment of various utility bills [since this liability is an ascertained liability] 	<u>12,00,000</u>
	<u>1,92,00,000</u>

16. (a) The first contention of Mr. Suresh is **not** correct.

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

Mr. Suresh has a house property in Sharjah, UAE and a bank account in the Bank of Sharjah. Therefore, Mr. Suresh has to file his return of income mandatorily for the A.Y.2020-21, even though his total income of ₹ 3,00,000, comprising solely of income from house property and bank interest, does not exceed the basic exemption limit of ₹ 3,00,000 applicable to a senior citizen.

- (b) Mr. Suresh's second contention is also **not** correct.

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

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

In this case, since Mr. Suresh has a house property located outside India in the P.Y.2008-09, income is deemed to have escaped assessment for A.Y.2009-10. Notice under section 148 issued to Mr. Suresh in September 2019 in respect of

A.Y.2009-10 is valid, since the extended time limit of sixteen years from the end of the relevant assessment year has not expired.

17. Section 264(4)(c) provides that the Principal Commissioner or Commissioner has no power to revise any order which has been made the subject matter of an appeal to the Commissioner (Appeals), even if the relief claimed in the petition is different from the relief claimed in appeal. The concept of total merger would apply in the case of section 264. It was so held by the Supreme Court in the case of *Hindustan Aeronautics Ltd v. CIT (2000) 243 ITR 898*.

Section 154(1A) provides that where any matter had been considered and decided in any proceeding by way of appeal or revision relating to an order, Assessing Officer may amend the order for rectification of mistake apparent from the record, in relation to a matter other than the matter which has been considered and decided. The concept of partial merger would apply in the case of section 154.

In the present case, since the order passed by the Assessing Officer in respect of the addition of unexplained investment of ₹ 20 lakhs became the subject matter of an appeal to the Commissioner (Appeals), the assessee, M/s. Himalaya LLP, cannot apply for revision under section 264 even if the subject matter of revision i.e., addition of ₹ 3 lakhs under section 40(b) is different from the subject matter of appeal.

However, M/s. Himalaya LLP can apply to the Assessing Officer for rectification of the order in respect of addition of ₹ 3 lakh under section 40(b), if the mistake is apparent from the record, as this matter has not been considered and decided in any proceeding by way of appeal or revision.

In the view of above, the assessee, M/s. Himalaya LLP should seek rectification under section 154.

18. Issue of notice under section 143(2) is mandatory for making a regular assessment under section 143(3). Section 292BB is a deeming provision that seeks to cure defects in any notice issued under any provision of the Income-tax Act, 1961, if the assessee has participated in the proceedings. Section 292BB provides that where the assessee has participated in the proceedings, any notice which is required to be served upon him shall be deemed to have been duly served and the assessee would be precluded from taking any objection that the notice was (a) not served upon him; or (b) not served upon him in time; or (c) served upon him in an improper manner.

The issue as to whether the Assessing Officer's omission to issue notice under section 143(2) is a defect curable under section 292BB if the assessee participates in the assessment proceedings came up before the Supreme Court in *CIT v. Laxman Das Khandelwal (2019) 417 ITR 325*.

The Supreme Court observed that the law on the point as regards applicability of the requirement of issue of notice under section 143(2) is quite clear. According to section 292BB, if the assessee had participated in the proceedings, by way of legal fiction, notice

issued would be deemed to be valid even if there be infractions as detailed in the said section. The scope of the provision is to make service of notice having certain infirmities to be proper and valid if there was requisite participation on the part of the assessee. It is, however, to be noted that the section does not save complete absence of issue of notice. **For section 292BB to apply, the notice must have emanated from the Department.** It is only the infirmities in the manner of service of notice that the section seeks to cure. The section is not intended to cure complete absence of notice itself.

The Supreme Court, accordingly, held that non-issuance of notice under section 143(2) is not a curable defect under section 292BB inspite of participation by the assessee in assessment proceedings.

19. **Computation of total income of Mr. Hari for A.Y.2020-21**

Particulars	₹	₹
Salaries [Indian Income]		
Basic Salary (₹ 60,000 x 12 months)	7,20,000	
Dearness Allowance (12% of basic salary of ₹ 7,20,000)	86,400	
Transport Allowance (₹ 10,000 x 12) [Fully taxable]	1,20,000	
Medical Allowance (₹ 5,000 x 12) [Fully taxable]	60,000	
Gross Salary	9,86,400	
Less: Standard deduction u/s 16(ia) Lower of actual salary or ₹ 50,000	50,000	
Net Salary		9,36,400
Income from Other Sources [Foreign Income]		
Income from lectures in foreign university [₹ 8,00,000 plus tax deducted at source of ₹ 2,00,000]		<u>10,00,000</u>
Gross Total Income		19,36,400
Less: Deduction under Chapter VIA		
Under section 80CCC – Contribution to approved Pension Fund of LIC	18,000	
Under section 80D – Medical insurance premium of mother, being a resident senior citizen for the year 2019-20, ₹ 40,000 [being 1/5 th of the lumpsum premium of ₹ 2,00,000 paid for 5 years] fully allowable, even though she is not dependent on him, since the same does not exceed ₹ 50,000	<u>40,000</u>	
		58,000
Total Income		<u>18,78,400</u>

Computation of tax liability of Mr. Hari for A.Y.2020-21		
Particulars		₹
Tax on total income [₹ 2,63,520 (i.e., 30% of ₹ 8,78,400) plus ₹ 1,12,500 (Tax on income of ₹ 10 lakh)]		3,76,020
Add: Health and education cess@4%		<u>15,041</u>
Tax Liability		3,91,061
Average rate of tax in India [i.e., ₹ 3,91,061 / ₹ 18,78,400 x 100]	20.82%	
Tax rate in Country X [2,00,000 / 10,00,000] x 100	20%	
Deduction under section 91 on ₹ 10,00,000, being the doubly taxed income@ 20% [being the lower of Indian rate of tax (20.82%) and Country X tax rate (20%)]		<u>2,00,000</u>
Tax Payable		<u>1,91,061</u>
Tax Payable (rounded off)		1,91,060

20. (i) The scope of the term “intangible property” includes, *inter alia*, process patents, which is a technology related intangible asset. Transfer of intangible property falls within the scope of the term “international transaction”. Since ABC Inc., a US company, guarantees not less than 10% of the borrowings of Rho Ltd., an Indian company, ABC Inc. and Rho Ltd. are deemed to be associated enterprises under section 92A(2). Therefore, since transfer of process patents by Rho Ltd., an Indian company, to ABC Inc., a US company, is an international transaction between associated enterprises, the provisions of transfer pricing are attracted in this case.
- (ii) Clause (i) of *Explanation* to section 92B amplifies the scope of the term “international transaction”. According to the said *Explanation*, international transaction includes, *inter alia*, provision of marketing management services. Athena is a specified foreign company in relation to Alpha Ltd. Therefore, the condition of Alpha Ltd. holding shares carrying not less than 26% of the voting power in Athena is satisfied, assuming that all shares carry equal voting rights. Hence, Athena and Alpha Ltd. are deemed to be associated enterprises under section 92A(2). Since the provision of marketing management services by Alpha Ltd. to Athena is an “international transaction” between associated enterprises, transfer pricing provisions are attracted in this case.
- (iii) Unit Delta is eligible for deduction@100% of the profits derived from its eligible business (i.e., the business of developing an infrastructure facility, namely, a highway project in this case) under section 80-IA. However, Unit Phi is not engaged in any “eligible business”. Since Unit Phi has transferred steel to Unit Delta at a price lower than the fair market value, it is an inter-unit transfer of goods between eligible business and other business, where the consideration for transfer does not correspond with the market value of goods. Therefore, this transaction would fall

within the meaning of “specified domestic transaction” to attract transfer pricing provisions, since the aggregate value of such transactions during the year exceeds a sum of ₹ 20 crore.

- (iv) Purchase of tangible property falls within the scope of “international transaction”. Tangible property includes machinery. Huff AG and Beta Ltd. are associated enterprises under section 92A, since Huff AG is a holding company of Beta Ltd. Therefore, purchase of machinery by Beta Ltd., an Indian company, from Huff AG, a German company, is an international transaction between associated enterprises, and consequently, the provisions of transfer pricing are attracted in this case.

PAPER – 8 : INDIRECT TAX LAWS

QUESTIONS

- (1) All questions should be answered on the basis of the position of GST law as amended by the Finance (No. 2) Act, 2019, which have become effective till 30.04.2020, and significant notifications and circulars issued upto 30.04.2020.
- (2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. The rates of customs duty are also hypothetical and may not necessarily be the actual rates. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

Questions 1-5 are based on the case scenario given below

Starkart Limited owns and operates a web portal in the name of “Starkart” and is registered with the jurisdictional GST authorities in Delhi as an electronic commerce operator and is liable to collect tax at source under section 52 of the Central Goods and Services Tax Act, 2017. Starkart provides listing service to various sellers for selling the goods to ultimate customers. Besides this, Starkart also sells its own products through the same web portal.

For the listing services provided to sellers, Starkart charges a listing fee at the rate of 10% of turnover of goods sold by the seller in a particular month. Such listing fee is recovered from the seller irrespective of any return of goods sold through Starkart. The customers can choose from wide range of goods listed on the web portal and place an online order for goods. The payment is made by the customers through the payment gateway in online mode only. At the time of monthly settlement, Starkart makes the payment to the sellers after adjusting the tax collection at source at the applicable rates.

The invoice for goods sold on Starkart is issued by the seller in the name of customers and tax is charged on the basis of location of seller and customer. The goods are shipped directly by the seller to the customer and there is no responsibility of shipping the goods on Starkart for third party sellers. In case of return of goods by the customer, the shipping is arranged by Starkart. It charges a fee equivalent to 20% of the value of goods returned as cancellation charges and refunds the balance amount to the customer. Further, 10% of the value of goods returned is collected from the seller by Starkart as handling charges for return of goods.

In the month of January, Pulkit, a resident of Rajasthan, purchased following goods from Starkart:

- a. Laptop having a value of ₹ 50,000 and a printer having a value of ₹ 10,000. Both the products are sold by Infocom Limited, a seller listed on Starkart and registered under GST in the State of Uttar Pradesh.

- b. Mobile phone having a value of ₹ 30,000 sold by Starkart in its own capacity.
- c. CCTV camera system having a value of ₹ 1,00,000 sold by Secure World, listed on Starkart and registered under GST in the State of Gujarat.

All the above transactions are exclusive of GST, wherever applicable.

There is no input tax credit balance as on 1st January for Starkart, Infocom Limited and Secure World.

GST is applicable in the aforesaid case scenario at the following rates unless otherwise specified:

CGST - 9%, SGST - 9%, IGST - 18%.

Basis the aforesaid case scenario, please answer the following questions:

1. The net tax liability (including amount payable as tax collection at source and after set-off of credits, if any) of Starkart Limited for the month of January is:
 - (a) IGST ₹ 8,280
 - (b) IGST ₹ 5,400
 - (c) CGST ₹ 3,500 and SGST ₹ 3,500
 - (d) IGST ₹ 9,880
2. The net tax liability (after set-off of credits, if any) of Infocom Limited and Secure World for the month of January is:
 - (a) IGST ₹ 10,800 and IGST ₹ 18,000 respectively
 - (b) IGST ₹ 9,720 and IGST ₹ 16,200 respectively
 - (c) IGST ₹ 9,120 and IGST ₹ 15,200 respectively
 - (d) IGST ₹ 10,200 and IGST ₹ 17,000 respectively
3. In case, it is assumed that Secure World's turnover does not exceed the threshold limit for obtaining registration under applicable GST Law:
 - (a) Secure World shall discharge tax only on the sales made through Starkart.
 - (b) Secure World is not required to obtain registration as threshold limit for obtaining registration is not crossed and no tax is payable.
 - (c) Starkart shall be liable to discharge tax liability of sales made by Secure World.
 - (d) Secure World is required to obtain registration and shall be liable to pay tax on all the taxable supplies made through Starkart or on its own.

4. Assuming that Pulkit returns the printer purchased from Infocom Limited in the month of January. As per the return policy, Starkart charges 20% of the value of the printer as cancellation charges from Pulkit and 10% of the value of the printer as handling charges from Infocom Limited. The net tax liability (including amount payable as tax collection at source and after set-off of credits, if any) of Starkart in such scenario for the month of January would be:
- (a) ₹ 6,900 payable as IGST
 - (b) ₹ 3,450 payable as CGST and ₹ 3,450 payable as SGST
 - (c) ₹ 10,320 payable as IGST
 - (d) ₹ 7,440 payable as IGST
5. Starkart provides a free gift voucher worth ₹ 2,000 to Pulkit on January 31, which can be redeemed against any purchases of goods made in future on Starkart. The supply of voucher in hands of Starkart would become:
- (a) taxable supply of ₹ 2,000 liable to GST in the month of January.
 - (b) taxable supply of ₹ 2,000 liable to GST in the month in which such voucher is redeemed by Pulkit.
 - (c) discount offered to Pulkit on the purchases made in the month of January and no tax would be payable on such voucher.
 - (d) discount offered to Pulkit at the time of redemption of voucher and no tax would be payable on such voucher.

Questions 6-10 are based on the case scenario given below.

Advance Traders is a partnership firm in Jaipur, Rajasthan. The firm has obtained GST registration at its Head Office (HO) in Jaipur. Further, the firm is having its depot for storage for goods in other districts in Rajasthan. The depots are added as additional place of business in the GST registration obtained at HO. Following details are provided about the firm for the month of July:

- a. Advance Traders received goods worth ₹ 5,00,000 for which GST is payable on reverse charge basis. The goods were received on 25th July. The supplier issued an invoice dated 24th July and payment for the same was made by Advance Traders on 30th July. Due to the absence of accountant, the transaction was recorded in the books of accounts on 1st August.
- b. In the month of July, Advance Traders issued vouchers worth ₹ 2,00,000 to its customers, which were eligible to be redeemed against identified goods. Also, certain set of customers were issued vouchers worth ₹ 5,00,000. The said

vouchers were eligible to be redeemed against any supply of goods in next 6 months.

- c. Mr. X, a partner in the firm, booked a Hotel in Udaipur, Rajasthan for the wedding of his daughter in the month of October. The advance amount of ₹ 5,00,000 for booking the hotel was paid by way of online payment from the current account of Advance Traders in July. The hotel charged GST on such booking at the rate of 28% (CGST @ 14% and SGST @ 14% or IGST @ 28%, as the case may be) on the amount received as advance and issued a receipt voucher.
- d. Advance Traders made a supply of goods worth ₹ 25,00,000 during the month of July. Out of the aforesaid supply, goods worth ₹ 5,00,000 were not liable to GST. However, Advance Traders inadvertently charged GST on such goods and collected the same from the customers.
- e. Due to clerical error, Advance Traders made a deposit in minor head penalty of the major head IGST for an amount of ₹ 3,00,000. There is no liability of interest on any IGST liability and the amount is lying as unutilized on GST portal.

The balance of input tax credit as on 1st July for the firm is nil for all the registrations.

GST is applicable in the aforesaid case scenario at the following rates unless otherwise specified:

CGST - 9%, SGST - 9%, IGST - 18%.

All the amounts given above are exclusive of GST, wherever applicable.

Basis the aforesaid case scenario, please answer the following questions:

- 6. Compute the GST liability to be discharged from electronic cash ledger for the month of July by Advance Traders. For computing this liability, consider that there is no adjustment regarding amount provided in point e. above:
 - (a) ₹ 5,76,000
 - (b) ₹ 4,36,000
 - (c) ₹ 3,96,000
 - (d) ₹ 4,86,000
- 7. Amount of input tax credit available to Advance Traders against the hotel booking expense shall be _____. Would there be any change if the hotel is located outside Rajasthan?
 - (a) Nil. There will be no change even if hotel is located outside Rajasthan

- (b) ₹ 70,000 as CGST and ₹ 70,000 as SGST. No credit would be available, had the hotel been located outside Rajasthan.
 - (c) ₹ 70,000 as CGST and ₹ 70,000 as SGST. IGST of ₹ 1,40,000 would be available, had the hotel been located outside Rajasthan.
 - (d) Nil. IGST of ₹ 1,40,000 would be available, had the hotel been located outside Rajasthan.
8. What is the time limit for issuance of show cause notice where GST is collected on supplies which are not liable to GST?
- (a) Within 2 years and 9 months from due date of filing annual return for the financial year.
 - (b) Within 4 years and 6 months from due date of filing annual return for the financial year.
 - (c) No time limit to issue the show cause notice
 - (d) No show cause notice to be issued. The tax amount shall be refunded to the customers if the customer demands the same.
9. Advance Traders claimed refund of amount paid erroneously in the minor head penalty of major head IGST. The authorities rejected the refund claim. Advance Traders filed a civil suit before the jurisdictional magistrate. Choose the correct answer:
- (a) The jurisdictional magistrate can direct the authorities to process the refund amount.
 - (b) The jurisdictional magistrate can redirect the matter for fresh assessment of refund claim.
 - (c) The jurisdictional magistrate can order provisional refund and initiate the re-assessment proceedings.
 - (d) The jurisdictional magistrate cannot pass any order regarding the refund claim.
10. Advance Traders wants to utilize the amount paid erroneously in the minor head penalty of the major head IGST against its tax liability to be discharged in cash. Please select the correct option:
- (a) The amount can be utilized only for discharging penalty amount under any head.
 - (b) The amount can be utilized only for discharging liability of IGST under any minor head.
 - (c) The amount can be utilized for discharging liability under any minor head or major head.
 - (d) The amount can be utilized only for discharging penalty amount related to IGST.

11. In respect of a consignment supplied on 20th August, provisional assessment was resorted to. The assessment was finalized on 20th November and the taxpayer became liable to pay differential IGST of ₹ 10,000/-. The taxpayer paid this amount on 20th February next year. The number of days for which the taxpayer is liable to pay interest are-
- (a) 184 days
 - (b) 153 days
 - (c) 92 days
 - (d) 204 days
12. Which of the following statements is false?
- (a) Anti-dumping duty is imposed when any article is exported from any country to India at more than its normal value.
 - (b) Safeguard duty shall not be applicable on articles imported by a 100% EOU or SEZ unit unless specifically made applicable.
 - (c) Safeguard duty shall not be imposed on articles originating from developing country if the share of imports of that article from that country \leq 3% of the total imports of that article into India.
 - (d) Central Government may exempt notified quantity of any article, when imported from any country into India, from whole/part of the safeguard duty.
13. Which of the following statements is/are incorrect in relation to refund provisions under the Customs Act, 1962?
- i. Interest on delayed refund is payable to the applicant only if duty ordered to be refunded is not refunded within 3 months from the date of receipt of application.
 - ii. If imports were made by an individual for his personal use, the amount of duty found refundable, is paid to the applicant instead of being credited to the Consumer Welfare Fund.
 - iii. Application for refund has to be made within 1 year of payment of duty where duty is paid under protest.
 - iv. Doctrine of unjust enrichment is applicable if refund of duty is relatable to drawback of duty payable under sections 74 and 75.
- (a) (i) and (iv)
 - (b) (i) and (ii)
 - (c) (iii) and (iv)
 - (d) (ii), (iii) and (iv)

14. KPI Ltd., registered in the State of Himachal Pradesh (HP), has a manufacturing unit at Baddi (HP). The company manufactures two products: 'Xt' and 'St'. While 'Xt' is taxable, 'St' is exempt from GST.

KPI Ltd. has furnished the following details:

S. No.	Particulars	IGST (₹)
(a)	Machinery 1 purchased on 1 st July for being used in manufacturing Xt and St	72,000
(b)	Machinery 2 purchased on 1 st July for being exclusively used in manufacturing product Xt	36,000
(c)	Machinery 3 purchased on 1 st July for being exclusively used in manufacturing product St	1,08,000
(d)	Machinery 4 purchased on 1 st October last year for being exclusively used in manufacturing product St. From 1 st July, such machinery will also be used for manufacturing product Xt.	1,44,000
(e)	Machinery 5 purchased on 1 st January for being exclusively used in manufacturing product Xt. From 1 st July, such machinery will also be used for manufacturing product St.	18,000
(f)	Machinery 6 purchased on 1 st July two years ago for being used in manufacturing Xt and St	1,08,000

Compute the following:

- Amount of input tax credit (ITC) credited to Electronic Credit Ledger for the month of July
- Amount of ineligible credit (T_{ie}) for the month of July
- Amount of aggregate value of common credit (T_c)
- Common credit for the month of July (T_m)

Note: All the conditions necessary for availing the ITC have been complied with. Make suitable assumptions wherever required.

15. Synotex Pvt. Ltd. manufactures taxable goods, 'Q' and exempt goods 'S'. Product 'S' is sold in international markets without payment of tax under letter of undertaking. The company is registered under GST in the State of Maharashtra.

The company provides the following information in relation to various supplies made by it during a tax period:

- (a) Product 'S' has been exported to UK for £ 12,000
- (b) Product 'Q' has been supplied to Betty Enterprises within India for ₹ 20,00,000

Note: The above amounts are exclusive of taxes, wherever applicable.

The company provides the following information in relation to tax paid on inward supplies received during the said tax period:

- (a) GST of ₹ 5,00,000 has been paid on inputs
- (b) GST of ₹ 2,40,000 has been paid on capital goods
- (c) GST of ₹ 2,00,000 has paid on input services
- (d) All the above inputs, input services and capital goods are used in the manufacturing process

Following additional information is also provided:

- (i) Value of product 'S' exported to UK in Indian rupees is ₹ 12,00,000. However, value of such product when supplied domestically by the company in similar quantities is ₹ 10,00,000.
- (ii) Betty Enterprises is a 100% export-oriented undertaking. It has claimed the ITC on goods supplied to it by Synotex Pvt. Ltd.
- (iii) The balance in the electronic credit ledger of Synotex Pvt. Ltd. at the end of the tax period for which the refund claim is being filed after GSTR-3B for the said period has been filed is ₹ 5,80,000.
- (iv) The balance in the electronic credit ledger of Synotex Pvt. Ltd. at the time of filing the refund application is ₹ 3,00,000.

Compute the amount refundable to Synotex Pvt. Ltd. for the tax period.

16. (i) Examine whether the suppliers are eligible for composition levy under section 10 of the CGST Act, 2017 in the following independent cases in the beginning of the current financial year.
- (a) Technology Enterprises, registered in Jalandhar, Punjab, is engaged in manufacturing computer systems. Its aggregate turnover in the preceding financial year is ₹ 125 lakh. Technology Enterprises supplies the computer systems manufactured by it within the State of Punjab only. With a view to expand its business operations, it will also start providing the repairing services of computer systems in the current financial year.

- (b) M/s. Siddharth & Sons, registered in Delhi, owns a restaurant 'Tasty Foods' with a turnover of ₹ 112 lakh in the preceding financial year. In view of the growing customer demand, it will also start intra-State trading of beverages in Delhi.
- (c) Sitaram Associates, registered in Sikkim, is engaged in running a food chain 'Veg Kitchen' in the State. It has a turnover of ₹ 73 lakh in the preceding financial year. In the current financial year, it decides to shut down the food chain owing to huge losses being incurred in the said business. Instead, it will start providing intra-State architect services.
- (d) Deepti Services Ltd., registered in Uttarakhand, is exclusively providing hair styling services. It has turnover of ₹ 34 lakh in the preceding financial year.

Will your answer be different, if Deepti Services Ltd. also start supplying beauty products alongwith providing hair styling services in the current financial year?

- (ii) Varun & Arun Associates started a partnership firm of architects in Bhopal (Madhya Pradesh) on 01.04.2020. The firm provides architecture services, in Madhya Pradesh. It provided the following details of its turnover:

April - June	₹ 20 lakh
July - Sept	₹ 30 lakh
Oct - Dec	₹ 20 lakh

The firm has obtained the registration under section 22 of the CGST Act, 2017 and pays tax under composition scheme. Determine the tax liability of Varun & Arun Associates for the quarters: Apr-Jun, Jul-Sept and Oct-Dec.

Note: The rates of tax on architectural services are CGST- 9% and SGST-9%.

- 17. Binaca Electronics Ltd. (hereinafter referred to as BEL) is engaged in manufacturing televisions. It is registered in the State of Haryana. It has appointed distributors across the country who sell the televisions manufactured by it. The maximum retail price (MRP) printed on the package of a television is ₹ 12,000. The applicable rate of GST on televisions is 18%. BEL dispatches the stock of televisions to its distributors ordered by them on a quarterly basis.

In order to promote its sales, the Sales Head of BEL has formulated a sales promotion scheme. Under this scheme, BEL offers a discount of 10% (per television) on televisions supplied to the distributors, if the distributors sell 500 televisions in a quarter. The discount is offered on the price at which the televisions are sold to the distributors (excluding all charges and taxes).

It appoints Shah Electronics (an unrelated party as per GST Law) as its distributor in Haryana on 1st April and dispatches 750 televisions on 8th April as stock for the quarter

April-June. BEL has sold the televisions to distributor - Shah Electronics at ₹ 8,400 per television (exclusive of applicable taxes). Shah Electronics has requested BEL for a special packing of the televisions delivered to it for which BEL has charged ₹ 1,200 per television.

Shah Electronics places a purchase order of 1,000 televisions with BEL for the quarter July-September. The distributor reports sales of 700 televisions for the quarter April-June and 850 televisions for the quarter July-September. The discount policy offered by BEL as explained above is also available to Shah Electronics as per the distributorship agreement.

While Shah Electronics reverses the input tax credit availed for the quarter July-September, it has failed to reverse the input tax credit availed for the quarter April-June.

Examine the scenario with reference to section 15 of the CGST Act, 2017 and compute the taxable value of televisions supplied by BEL to Shah Electronics during the quarters April-June and July-September assuming the rate of tax applicable on the televisions as 18%.

18. Answer the following questions:

- (i) Subhashini Ltd. agreed to provide consultancy services to Madhu Enterprises in the month of May for which it received an advance of ₹1,00,000 on 20th April from Madhu Enterprises. Subsequently, in the month of May, before supply of service, the said service contract has to be cancelled owing to some inadvertent circumstances. However, Subhashini Ltd. has issued the invoice for the advance received in April itself and has paid the GST thereon.

You are the tax consultant of Subhashini Ltd. Please advise whether it can claim refund of tax paid or is it required to adjust its tax liability in its returns?

- (ii) Narmada Enterprises, a registered person, pays CGST and SGST on a transaction considered by it to be an intra-State supply. However, subsequently said transaction is held to be an inter-State supply. Examine the recourse available with Narmada Enterprises.

19. Rudraksh Manufacturers, Kolkata, is engaged in manufacturing the textile articles. It has decided to enhance its production capacity in the current year. Therefore, it imports a machine through vessel from George Inc., USA at a price of \$ 31,650 (including transport charges from the factory of George Inc. upto US port of \$ 2,500 and handling charges at US port of \$ 1,750). Rudraksh Manufacturers has provided the following additional information in respect of machine imported:

S.No.	Particulars	Amount
(i)	Charges for design and engineering work undertaken for	US \$ 1,750

	the machine in US	
(ii)	Buying commission paid by Rudraksh Manufacturers	US \$ 150
(iii)	Freight charges from USA to India	US \$ 3,000
(iv)	Unloading and handling charges paid at the place of importation	₹ 2,250
(v)	Exchange rate to be considered: 1\$ = ₹ 60	

The actual insurance charges paid are not ascertainable. You are required to determine the assessable value of the imported machine under the Customs Act, 1962 from the given particulars.

20. With reference to drawback on re-export of duty paid imported goods under section 74 of the Customs Act, 1962, answer in brief the following questions:
- What is the time limit for re-exportation of goods as such?
 - What is the rate of duty drawback if the goods are exported without use?
 - Is duty drawback allowed on re-export of wearing apparel without use?

SUGGESTED ANSWERS/HINTS

- (d)
- (c)
- (d)
- (c)
- (b)
- (d)
- (a)
- (c)
- (d)
- (c)
- (b)
- (a)
- (c)

14.

S. No.	Particulars	ITC (₹)
(i)	Amount of ITC credited to Electronic Credit Ledger, for the month of July	
	Machinery 1 – 'A' [Note 1]	72,000
	Machinery 2 [Note 2]	36,000
	Machinery 3 [Note 3]	-
	Machinery 4 – 'A' [Note 4]	1,44,000
	Machinery 5 [Note 5]	-
	Machinery 6 – 'A' [Note 6]
	ITC credited to Electronic Credit Ledger, for the month of July	2,52,000
(ii)	Amount of ineligible credit (T_{ie}) for the month of July [Note 7]	21,600
(iii)	Aggregate value of common credit (T_c) [Note 8]	
	Value of 'A' for Machinery 1 purchased on 1 st July and used for effecting both taxable and exempt supplies	72,000
	Value of 'A' for Machinery 4 purchased on 1 st October last year for being used for effecting exclusively exempt supplies and used for effecting both taxable and exempt supplies from 1 st July	1,44,000
	Value of 'A' for Machinery 6 purchased on 1 st July two years ago and used for effecting both taxable and exempt supplies	1,08,000
	Input tax claimed on Machinery 5 purchased on 1 st January for being used for effecting exclusively taxable supplies and used for effecting both taxable and exempt supplies from 1 st July [Note 9]	<u>18,000</u>
	Aggregate value of common credit (T_c) for the month of July – T_c [Note 9]	3,42,000
(iv)	Common credit for the month of July (T_m) [Note 10]	5,700

Notes:

- (1) ITC in respect of capital goods used commonly for effecting taxable supplies and exempt supplies denoted as 'A' shall be credited to the electronic credit ledger [Rule 43(1)(c) of the CGST Rules, 2017].
- (2) ITC in respect of capital goods used or intended to be used exclusively for effecting supplies other than exempted supplies but including zero rated supplies shall be credited to the electronic credit ledger [Rule 43(1)(b) of the CGST Rules, 2017].
- (3) ITC in respect of capital goods used or intended to be used exclusively for effecting exempt supplies shall not be credited to electronic credit ledger [Rule 43(1)(a) of the CGST Rules, 2017].
- (4) When capital goods which were initially used exclusively for exempt supplies are subsequently used commonly for exempt supplies as well as taxable supplies, input tax in respect of the same denoted as 'A' shall be credited to the electronic credit ledger [Rule 43(1)(c) of the CGST Rules, 2017].
- (5) Machinery 5 is used for effecting both taxable and exempt supplies since 1st July. Prior to that, it was exclusively used for effecting taxable supplies. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (6) Machinery 6 is being used for effecting both taxable and exempt supplies from 1st July two years ago. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (7) When capital goods which were used exclusively for exempt supplies are subsequently used commonly for exempt supplies as well as taxable supplies, input tax in respect of the same is credited in the electronic credit ledger. The ineligible credit 'T_{ie}' attributable to the period during which such capital goods were used for making exempt supplies is computed @ 5% per quarter or part thereof and added to the output tax liability of the tax period in which such credit is claimed [Rule 43(1)(c) of the CGST Rules, 2017].

Thus, 'T_{ie}' shall be computed as under-

$$= ₹ 1,44,000 \times 5\% \times 3 \text{ quarters}$$

$$= ₹ 21,600$$

- (8) The aggregate of the amounts of 'A' credited to the electronic credit ledger in respect of common capital goods whose useful life remains during the tax period, to be denoted as 'T_c', shall be the common credit in respect of such capital goods [Rule 43(1)(d) of the CGST Rules, 2017].
- (9) Where any capital goods which were used exclusively for effecting taxable supplies are subsequently also used for effecting exempt supplies, the input tax credit

claimed in respect of such capital goods shall be added to arrive at the aggregate value of common credit 'Tc' [Proviso to rule 43(1)(d) of the CGST Rules, 2017].

- (10) ITC attributable to a month on common capital goods during their useful life (T_m) shall be computed in accordance with rule 43(1)(e) of CGST Rules, 2017 as under:

$$\begin{aligned} &= T_c \div 60 \\ &= ₹ 3,42,000 \div 60 \\ &= ₹ 5,700 \end{aligned}$$

The useful life of any capital goods shall be considered as five years from the date of invoice and the said formula shall be applicable during the useful life of the said capital goods.

15. Export of product 'S'

Export of goods is a zero rated supply in terms of section 16(1)(a) of the IGST Act, 2017. Section 16(2) of the IGST Act, 2017 stipulates that subject to the provisions of section 17(5) of the CGST Act, 2017, ITC may be availed for making zero-rated supplies even if such supply may be an exempt supply. As per section 54(3)(i) of the CGST Act, 2017, a registered person may claim refund, of any unutilised ITC at the end of any tax period in the case of zero rated supply made without payment of tax.

Therefore, in the given case, Synotex Pvt. Ltd. will be eligible to claim ITC for export of exempt product 'S' in terms of section 16(2) of the IGST Act, 2017 and will thus, be able to claim refund of unutilised ITC in terms of section 54(3)(i) of the CGST Act, 2017.

As per rule 89(4) of the CGST Rules, 2017, refund of unutilized ITC in case of zero rated supply without payment of tax under letter of undertaking is granted in accordance with the following formula:

$$\text{Refund Amount} = \frac{(\text{Turnover of zero rated supply of goods} + \text{Turnover of zero rated supply of services})}{\text{Adjusted Total Turnover}} \times \text{Net ITC}$$

Here,

Net ITC = ₹ 7,00,000 [Net ITC includes ITC on inputs and input services but not ITC on capital goods].

Turnover of zero-rated supply of goods (Product 'S') = ₹ 12,00,000 [Lower of the value of zero rated supply of goods (₹ 12,00,000) or the value which is 1.5 times the value of like goods domestically supplied by the same or, similarly placed, supplier (₹ 15,00,000)].

Adjusted total turnover = ₹ 32,00,000 [₹ 20,00,000 + ₹ 12,00,000]

Thus, refund amount under rule 89(4)

$$= ₹ 7,00,000 \times ₹ 12,00,000 / ₹ 32,00,000 = ₹ 2,62,500.$$

Circular No. 125/44/2019 GST dated 18.11.2019 provides that amount refundable to the applicant is least of the following amounts:

- (a) Maximum refund amount as per the formula in rule 89(4) of the CGST Rules [₹ 2,62,500]
- (b) Balance in the electronic credit ledger at the end of the tax period for which the refund claim is being filed after GSTR-3B for the said period has been filed [₹ 5,80,000]
- (c) Balance in the electronic credit ledger at the time of filing the refund application [₹ 3,00,000]

Thus, amount refundable to Synotex Pvt. Ltd. of unutilized ITC is ₹ 2,62,500.

Supply of product 'R' to Betty Enterprises, a 100% EOU

Supplies to EOU is notified as deemed export under section 147 vide *Notification No. 48/2017 CT dated 18.10.2017*. In respect of supplies regarded as deemed exports, the application of refund can be filed by the supplier of deemed export supplies only in cases where the recipient does not avail of ITC on such supplies and furnishes an undertaking to the effect that the supplier may claim the refund [Third proviso to rule 89(1) of the CGST Rules, 2017]. Therefore, since in the given case, Betty Enterprises (recipient) is claiming ITC, Synotex Pvt. Ltd. (supplier of deemed exports) cannot claim refund of ITC.

Therefore, amount refundable to Synotex Pvt. Ltd. is ₹ 2,62,500.

16. (i) As per section 10(1) of the CGST Act, 2017, the following registered persons, whose aggregate turnover in the preceding financial year did not exceed ₹ 1.5 crore, may opt to pay tax under composition levy:
- (i) Manufacturer,
 - (ii) Persons engaged in making supplies referred to in clause (b) of paragraph 6 of Schedule II (restaurant services), and
 - (iii) Any other supplier eligible for composition levy.

The composition scheme under sub-sections (1) and (2) of section 10 can essentially be availed in respect of goods and only one service namely, restaurant service. However, the scheme permits supply of other marginal services for a specified value along with the supply of goods and restaurant service, as the case may be. Such marginal services can be supplied for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher. Further, the registered person should not be engaged in making any inter-State outward supplies of goods.

Furthermore, newly inserted section 10(2A) of the CGST Act, 2017 provides an option to a registered person, who is not eligible to pay tax under section 10(1) and

10(2), of paying tax @ 6% (CGST-3% and SGST/UTGST-3%) provided his aggregate turnover in the preceding financial year is upto ₹ 50 lakh. Said person can pay tax @ 6% of the turnover in State or turnover in Union territory up to an aggregate turnover of ₹ 50 lakh, subject to specified conditions. One of such condition is that the registered person should not be engaged in making any inter-State outward supplies of goods or services.

In view of the above-mentioned provisions, the answer to the given independent cases is as under:-

- (a) The turnover limit for being eligible for composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017 for Jalandhar (Punjab) is ₹ 1.5 crore in the preceding financial year. Thus, Technology Enterprises can opt for said composition scheme as its aggregate turnover is less than ₹ 1.5 crore in the preceding financial year and it is making intra-State supplies. Further, since the registered person opting for composition scheme can also supply services (other than restaurant services) for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher. Thus, Technology Enterprises can supply repair services up to a value of ₹ 12.5 lakh [10% of ₹ 125 lakh] in the current financial year.

- (b) In the given case:-

- (i) the turnover in the preceding year is less than the eligible turnover limit under composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017 for Delhi, i.e. ₹ 1.5 crore.
- (ii) the supplier is engaged in providing restaurant service which is an eligible supply under said composition scheme.
- (iii) the supplier wants to engage in trading of goods which is also an eligible supply under said composition scheme.

Thus, M/s. Siddharth & Sons is eligible for composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017.

- (c) The turnover limit for being eligible for composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017 for Sikkim is ₹ 75 lakh in the preceding financial year. However, a registered person who is exclusively engaged in supplying services other than restaurant services are not eligible for said composition scheme. Thus, Sitaram Associates cannot opt for composition scheme under sub-sections (1) and (2) of section 10.

However, the benefit of composition scheme under section 10(2A) of the CGST Act, 2017 is available in case of a registered person who is not eligible to pay tax under sub-sections (1) and (2) of section 10 provided its aggregate turnover in the preceding financial year does not exceed ₹ 50 lakh.

Thus, in view of the above-mentioned provisions, Sitaram Associates cannot avail the benefit of composition scheme under section 10(2A) also as its aggregate turnover in the preceding financial year is more than ₹ 50 lakh.

- (d) A service provider can opt for the composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017 only if he is engaged in supply of restaurant services. Said scheme permits supply of marginal services for a specified value, but only when the same are supplied along with goods and/ or restaurant service.

Since Deepti Services Ltd. is exclusively engaged in supply of services other than restaurant services, it is not eligible for composition scheme sub-sections (1) and (2) of section 10 even though its turnover in the preceding year is less than ₹ 75 lakh, the eligible turnover limit for Uttarakhand.

However, since Deepti Services Ltd. is not eligible to opt for composition scheme under sub-sections (1) and (2) of section 10 and its aggregate turnover in the preceding financial year does not exceed ₹ 50 lakh, Deepti Services Ltd. is entitled to avail benefit of composition scheme under section 10(2A) of the CGST Act, 2017 in the current financial year.

Further, the answer will remain the same even if Deepti Services Ltd. also start supplying beauty products alongwith providing hair styling services in the current financial year since it fulfils the conditions laid down for availing the benefit of composition scheme under section 10(2A) of the CGST Act. It can avail the benefit of composition scheme under section 10(2A) till the time its aggregate turnover in the current year doesn't exceed ₹ 50 lakh.

- (ii) The composition scheme under sub-sections (1) and (2) of section 10 of the CGST Act, 2017 is available in case of goods and restaurant service. Further, marginal services upto specified limit can be provided along with the supply of goods or restaurant service, as the case may be. Since, in the given case, Varun & Arun Associates is supplying services other than restaurant services, it is not eligible to pay tax under sub-sections (1) and (2) of section 10. However, section 10(2A) of the CGST Act, 2017 provides an option to a registered person, who is not eligible to pay tax under sub-sections (1) and (2) of section 10, of paying tax @ 6% (CGST-3% and SGST/UTGST-3%) provided his aggregate turnover in the preceding financial year is upto ₹ 50 lakh. Said person can pay tax @ 6% of the turnover in State or turnover in Union territory up to an aggregate turnover of ₹ 50 lakh, subject to specified conditions.

In the given case, Varun & Arun Associates has started the supply of services in the current financial year. Therefore, its aggregate turnover in the preceding financial year is Nil. Consequently, it is eligible to avail the benefit of composition scheme under section 10(2A) of the CGST Act in the current financial year. It becomes eligible for the registration when its aggregate turnover exceeds ₹ 20 lakh. While

registering under GST, it has to opt for composition scheme under section 10(2A).

For determining its turnover of the State for payment of tax under composition scheme for services, turnover of April-June quarter [₹ 20 lakh] shall be excluded as the value of supplies from the first day of April of a financial year up to the date when such person becomes liable for registration under this Act are to be excluded for this purpose.

On next ₹ 30 lakh [turnover of July-Sept quarter], it shall pay tax @ 6% [3% CGST and 3% SGST], i.e. CGST ₹ 90,000 and SGST ₹ 90,000.

By the end of July-Sept quarter, its aggregate turnover reaches ₹ 50 lakh*.

Consequently, its option to avail composition scheme under section 10(2A) shall lapse by the end of July-Sept quarter and thereafter, it is required to pay tax at the normal rate. Thus, the tax payable for Oct-Dec quarter is ₹ 20 lakh × 9%, i.e. CGST - ₹ 1,80,000 and SGST - ₹ 1,80,000.

*Note - While computing aggregate turnover for determining Varun & Arun Associates' eligibility to pay tax under composition scheme, value of supplies from the first day of April of a financial year up to the date when such person becomes liable for registration under this Act (i.e. turnover of April-June quarter), are included.

17. Section 15(3)(a) of the CGST Act, 2017 allows discounts to be deducted from the value of taxable supply if the same is given before or at the time of the supply and if such discount has been duly recorded in the invoice issued in respect of such supply. In other words, pre-supply discounts recorded in invoices are allowed as deduction.

Further, post supply discounts are also allowed as deduction from the value of supply under section 15(3)(b) of the CGST Act if-

- (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and
- (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply.

In the given case, Shah Electronics is entitled for 10% discount on televisions supplied by BEL for the quarters April-June as well as July-September as it has sold more than 500 televisions in each of these quarters. However, since the sales targets are achieved after the entire stock for the respective quarters of April-June and July-September has been dispatched, the discounts on the televisions supplied to Shah Electronics for the quarters of April-June and July-September is a post-supply discount.

Such post-supply discount will be allowed as a deduction from the value of supply since the discount policy was known before the time of such supply and the discount can be specifically linked to relevant invoices (invoices pertaining to televisions supplied to Shah Electronics for the quarters of April-June and July-September) provided Shah Electronics

reverses the input tax credit attributable to the discount on the basis of document issued by BEL.

The value of supply for the quarters of April-June and July-September will thus, be computed as under:

Computation of value of supply for the quarter - April-June

Particulars	Amount (₹)
Price at which the televisions are supplied to Shah Electronics [Note 1]	8,400
Add: Packing expenses [Note 2]	1,200
Less: Discount [Note 3]	<u>Nil</u>
Value of taxable supply of one unit of television	9,600
Value of taxable supply of televisions for the quarter April-June [₹ 9,600 x 750]	72,00,000

Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) of the CGST Act, 2017 presuming that the supplier and the recipient of supply are not related and price is the sole consideration for the supply as the supplier and recipient are not related parties.
- (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c) of the CGST Act.
- (3) Since Shah Electronics has not reversed the input tax credit attributable to such discount on the basis of document issued by BEL, the conditions specified in section 15(3)(b) of the CGST Act have not been fulfilled. Thus, the post-supply discount will not be allowed as deduction from the value of supply.

Computation of value of supply for quarter - July-September

Particulars	Amount (₹)
Price at which the televisions are supplied to Shah Electronics [Note 1]	8,400
Add: Packing expenses [Note 2]	1,200
Less: Discount [Note 3]	<u>(840)</u>
Value of taxable supply of one unit of television	8,760

Value of taxable supply of televisions for the quarter July-September [₹ 8,760 x 1,000]	87,60,000
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Notes:

- (1) The value of a supply is the transaction value, which is the price actually paid or payable for the said supply, in terms of section 15(1) of the CGST Act presuming that the supplier and the recipient of supply are not related and price is the sole consideration for the supply as the supplier and recipient are not related parties.
 - (2) The value of supply includes incidental expenses like packing charges in terms of section 15(2)(c) of the CGST Act.
 - (3) Since all the conditions specified in section 15(3)(b) of the CGST Act have been fulfilled, the post-supply discount will be allowed as deduction from the value of supply. The input tax credit to be reversed will work out to be ₹1,51,200 [1,000 x (8,400 x 10%) x 18%].
- 18. (i)** In case GST is paid by the supplier on advances received for a future event which got cancelled subsequently and for which invoice is issued before supply of service, the supplier is required to issue a “credit note” in terms of section 34 of the CGST Act, 2017. He shall declare the details of such credit notes in the return for the month during which such credit note has been issued. The tax liability shall be adjusted in the return subject to conditions of section 34. There is no need to file a separate refund claim.

However, in cases where there is no output liability against which a credit note can be adjusted, registered persons may proceed to file a refund claim [Circular No. 137/07/2020 GST dated 13.04.2020].

Therefore, in the given case, Subhashini Ltd. is required to issue a credit note, declare its details in the return for the month during which such credit note has been issued and adjust the tax liability. However, if there is no output liability of Subhashini Ltd. against which the said credit note can be adjusted, it may proceed to file a refund claim.

- (ii) Section 77(1) of the CGST Act, 2017 stipulates that a registered person who has paid the Central tax and State tax or, as the case may be, the Central tax and the Union territory tax on a transaction considered by him to be an intra-State supply, but which is subsequently held to be an inter-State supply, shall be refunded the amount of taxes so paid.

Further, section 19(2) of the IGST Act, 2017 provides that a registered person who has paid central tax and State tax or Union territory tax, as the case may be, on a transaction considered by him to be an intra-State supply, but which is subsequently held to be an inter-State supply, shall not be required to pay any interest on the amount of integrated tax payable.

Thus, in the given case, Narmada Enterprises shall be refunded the amount of taxes so paid and it shall not be required to pay any interest on the amount of IGST payable by it on the transaction wrongly considered by it earlier as intra-State transaction.

19. Computation of assessable value of imported goods

Particulars	Amount (US \$)
Price of the machine (including transport charges from the factory of George Inc. upto US port and handling charges at US port) [Note-1]	31,650
Add: Charges for design and engineering work undertaken for the machine in USA [Note 2]	1,750
Buying commission [Note 3]	Nil
FOB value	33,400.00
Add: Freight charges up to India [Note-1]	3,000.00
Insurance charges @ 1.125% of FOB [Note 4]	375.75
CIF value	36,775.75
Add: Unloading and handling charges paid at the place of importation [Note 5]	Nil
Assessable value	36,775.75
Assessable value in Indian rupees @ ₹ 60/ per \$	₹ 22,06,545

Notes:

- (1) The cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation are includible in the assessable value [Rule 10(2)(a) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR)].
- (2) Design and engineering work undertaken elsewhere than in India and necessary for the production of the imported goods is includible in the assessable value [Rule 10(1)(b)(iv) of the CVR].
- (3) Buying commission is not included in the assessable value [Rule 10(1)(a)(i) of the CVR].
- (4) If insurance cost is not ascertainable, the same shall be added @ 1.125% of FOB value of the goods [Third proviso to rule 10(2) of the CVR].
- (5) By virtue of rule 10(2) of the CVR, only charges incurred for delivery of goods "to" the place of importation are includible in the transaction value. The loading,

unloading and handling charges associated with the delivery of the imported goods at the place of importation are not to be added to the CIF value of the goods. [Circular No. 39/2017 Cus. dated 26.09.2017].

20. (i) As per section 74 of the Customs Act, 1962, the duty paid imported goods are required to be entered for export within 2 years from the date of payment of duty on the importation. This period can be extended by CBIC if the importer shows sufficient reason for not exporting the goods within 2 years.
- (ii) If duty paid imported goods are exported without use, then 98% of such duty is re-paid as drawback.
- (iii) Yes, duty drawback is allowed when wearing apparels are re-exported without being used. However, *Notification No. 19/65 Cus dated 06.02.1965* as amended provides that if wearing apparels have been used after their importation into India, drawback of import duty paid thereon shall not be allowed when they are exported out of India.

**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for
November, 2020 Examination – Final (New) Examination**

Elective Papers

Paper 6A: Risk Management

The pattern of examination for this paper is open-book and case study based. The entire content included in the August 2019 edition of the Study Material shall be relevant for the November 2020 examination.

Paper 6B: Financial Services and Capital Markets

The pattern of examination for this paper is open-book and case study based. The entire content included in the September 2019 edition of the Part A of Study Material shall be relevant for November 2020 examination.

In addition to above, following five SEBI Regulations **excluding the Schedules** related thereto as covered by the October 2019 edition of Part B of the Study Material shall also be relevant for November 2020 examination.

- (i) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [Last amended upto June 30, 2019]
- (ii) SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 [Last amended upto June 30, 2019]
- (iii) SEBI (Prohibition of Insider Trading) Regulations, 2015 [Last amended upto June 30, 2019]
- (iv) SEBI (Buy Back of Securities) Regulations, 2018 [Last amended upto June 30, 2019]
- (v) SEBI (Mutual Funds) Regulations, 1996 [Last amended upto June 30, 2019]

Paper – 6C : International Taxation

1. Applicability of amendments made by Finance Act

As far as the applicability of Finance Act is concerned, the amendments made by the Finance Act of a particular year would be applicable for the May and November examinations of the next year. **Accordingly, the direct tax laws, as amended by the Finance Act, 2019 and the Finance (No.2) Act, 2019, would be applicable for November 2020 examinations. The relevant assessment year for November, 2020 examinations is A.Y.2020-21.** This would be relevant as far as the topics on International Taxation pertain to the Income-tax Act, 1961, equalization levy and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

However, if the case study based question requires computation/determination relating to any earlier assessment year also, then, the relevant provisions pertaining to that year would be given in the question itself. In the alternative, the question may mention that the relevant provisions in the earlier year were the same as they are for A.Y.2020-21.

2. Applicability of amendments made by circulars, notifications, press releases/press notes and other legislations

Students are expected to be updated with the notifications, circulars, press releases/press notes issued and other legislative amendments made in direct tax laws upto 6 months prior to the examination. For instance, for November, 2020 examination, significant notifications, circulars, press releases/press notes issued by the CBDT/Central Government and legislative amendments made upto 30th April, 2020 would be relevant. Significant notifications, circulars, press releases/press notes issued and legislative amendments made upto 30th April, 2020, but not covered in the September, 2019 edition of the Study Material of Paper 6C International Taxation, will be webhosted as Statutory Update for November 2020 examination at the BoS Knowledge Portal.

3. Applicability of provisions of direct tax laws dealt with in Final (New) Paper 7 while addressing issues and making computation in case study based questions in Final (New) Paper 6C

The questions based on case study in the Elective Paper 6C: International Taxation may involve application of other provisions of direct tax laws dealt with in detail in Paper 7: Direct Tax Laws and International Taxation, which the students are expected to be aware of. Students may note that they are expected to integrate and apply the provisions of direct tax laws (dealt with in Final Paper 7: Direct Tax Laws and International Taxation and in the Elective Paper 6C: International Taxation) in making computations and addressing relevant issues in questions raised in the Elective Paper 6C on International Taxation.

Therefore, the September, 2019 edition of the Study Material for Final Paper 6C: International Taxation available at https://www.icai.org/post.html?post_id=16004, the October, 2019 edition of the Study Material for Final Paper 7: Direct Tax Laws and International Taxation available at https://www.icai.org/post.html?post_id=16019 and the webhosted Statutory Update for November, 2020 Examination for both Paper 6C and for Paper 7 (which includes amendments made by the Taxation Laws (Amendment) Act, 2019) are relevant and important for answering case-study based questions in Paper 6C. These publications and updates have to be read along with the relevant bare Acts and Rules to address issues and make computations in case study based questions. The initial pages of the Study Material of Paper 6C available at <https://resource.cdn.icai.org/56882bos46141initpages.pdf> gives link to the important webpages of the income-tax department and the relevant bare Acts and Rules.

4. Scope of coverage of certain topics

As regards certain topics on International Taxation, namely, Tax Treaties: Overview, Features, Application & Interpretation and Anti-Avoidance Measures, only the content as covered in the **September, 2019 edition** of the Study Material would be relevant for November, 2020 Examination. US Model Convention is **excluded** from the scope of the topic "Overview of Model Tax Conventions" by way of Study Guidelines.

It may be noted that if a case study based question involves application of a double taxation avoidance agreement (DTAA), the extract of the relevant article(s) of the DTAA would be given in the question paper. Alternatively, the question may mention that the DTAA is in line with the OECD/UN Model Tax Convention, in which case the students have to refer to the relevant article(s) of the Model Tax Convention. Students are expected to have the ability to interpret the article(s) of the DTAA in answering case study based questions.

Paper 6D: Economic Laws

All the significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued in the specified Acts covered under the Economic Laws, up to 30th April 2020, are applicable for November 2020 examination.

Inclusions / Exclusions from the syllabus			
(1) S. No. in the syllabus	(2) Chapters/ Topics of the syllabus	(3) Inclusions (Provisions which are included from the corresponding chapter of the syllabus)	(4) Exclusions (Provisions which are excluded from the corresponding chapter of the syllabus)
Chapter 1	World Trade Organization	-	Entire chapter is excluded.
Chapter 2	The Competition Act, 2002 and Rules/Regulations	<p>The entire content included in the November 2019 edition of the Study Material and the Legislative amendments to be hosted on the website for November 2020 examinations, shall only be relevant for the said examinations.</p> <p>Significant Rules/Regulations related to the Competition Act are covered in the study material in the Broad manner. These are relevant for November 2020 examination to the</p>	<p>Following Sections of the Competition Act, 2002 are excluded for the examination: 23, 24, 25, 34, 37, 40 are excluded.</p> <p>Coverage of the Rules or regulations to the Competition Act are restricted to the extent covered in the study material.</p>

		extent covered in the study material.	
Chapter 3	Real Estate (Regulation and Development) Act, 2016 and Rules/Regulations	The entire content included in the November 2019 edition of the Study Material and the Legislative amendments to be hosted on the website for November 2020 examinations, shall only be relevant for the said examinations.	Regulations pertaining to RERA are excluded.
Chapter 4	The Insolvency and Bankruptcy Code, 2016 and Rules/Regulations	<p>The entire content included in the November 2019 edition of the Study Material and the Legislative amendments to be hosted on the website for November 2020 examinations, shall only be relevant for the said examinations.</p> <p>In specific, Regulations/ Rules related to Insolvency and Bankruptcy, it is covered broadly and not in entirety. These shall only be applicable to the extent covered in the study material.</p>	<p>Following sections are excluded of the Notified chapters of the Code: 3(2), 3(3), 3(5), 3(14), 3(22), 3(24), 3(25), 3(26), 3(28), 3(29), 3(32), 3(36), 3(37), 5(2) to 5(4), 5(10), 5(15), 5(16), 5(19), 5(21) to 5(23), 19, 26, 191, 195, 205, 224, 228, 229, 241-255.</p> <p>In specific, chapter related to Insolvency resolution and bankruptcy for individuals and partnership firms of the Code (from section 78 to 187) is excluded.</p> <p>Coverage of the Rules or regulations to the IBC are restricted to the extent covered in the study material.</p>
Chapter 5	The Prevention of Money Laundering Act, 2002 and Rules/Regulations	The entire content included in the November 2019 edition of the Study Material and the Legislative amendments to be hosted on the website for November 2020	<p>Following provisions are excluded for the examination: Sections 2(1)(a), (c), (d), (g), (ga), (h), (m), (ma), (r), , (t), (v), , (x), (za), (zc), (ze), (zg)- (zj), & 2(2)- Definitions, 27, 28,</p>

		examinations, shall only be relevant for the said examinations.	29, 30, 31, 32, 33, 34, 48, 49, 50, 51, 52, 53, & 54. Rules related to PMLA are excluded.
Chapter 6	The Foreign Exchange Management Act, 1999 and Rules / Regulations	<p>The entire content included in the November 2019 edition of the Study Material and the Legislative amendments to be hosted on the website for November 2020 examinations, shall only be relevant for the said examinations.</p> <p>In specific following FEM (Regulations)/ Rules shall only be applicable to the extent covered in the study material-</p> <ul style="list-style-type: none"> • Foreign Exchange Management (Current Account Transactions) Rules, 2000 • Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000 • Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2018 • Foreign Exchange Management (Acquisition and Transfer of 	<p>Following provisions of the FEMA, 1999 is excluded for the examination- Sections 17(3) - 17(6), 20 to 31, 33, 45, 46, 47 & 48.</p> <p>Following FEM(Regulations)/ Rules are entirely excluded:</p> <ul style="list-style-type: none"> • Foreign Exchange (Authentication of Documents) Rules, 2000 • Foreign Exchange (Compounding Proceedings) Rules, 2000 • Foreign Exchange Management (Adjudication Proceedings and Appeal) Rules, 2000 • Foreign Exchange Management (Encashment of Draft, Cheque, Instrument and Payment of Interest) Rules, 2000 • Foreign Exchange Management (Borrowing and lending in Rupees) Regulations, 2000 • Foreign Exchange Management

		<p>Immovable Property outside India) Regulations, 2015</p> <ul style="list-style-type: none"> • Foreign Exchange Management (Export of Goods and Services) Regulations, 2015 • Foreign Exchange Management (Realisation, repatriation and surrender of foreign exchange) Regulations, 2015 • Foreign Exchange Management (Possession and retention of foreign currency) Regulations, 2015 • Liberalized Remittance Scheme. • Import of Goods and Services • External Commercial Borrowings • Overseas Direct Investments 	<p>(Deposit) Regulations, 2016</p> <ul style="list-style-type: none"> • Foreign Exchange Management (Establishment in India of a Branch Office or a Liaison Office or a Project Office or any other place of business) Regulations, 2016 • Foreign Exchange Management (Export and Import of Currency) Regulations, 2015 • Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015 • Foreign Exchange Management (Foreign Exchange Derivative Contracts) Regulations, 2000 • Foreign Exchange Management (Guarantees) Regulations, 2000 • Foreign Exchange Management (Insurance) Regulations, 2015 • Foreign Exchange Management (Investment in firm or proprietary Concern in India) Regulations, 2000 • Foreign Exchange Management (Issue of
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			<p>security in India by a Branch Office or Agency of a person Resident in outside India) Regulations, 2000</p> <ul style="list-style-type: none"> • Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2016 • Foreign Exchange Management (Remittance of Assets) Regulations, 2016 • Foreign Exchange Management (Transfer or issue of any Foreign security) Regulations, 2004 • Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000 • Foreign Exchange Management (Withdrawal of General permission to Overseas Corporate Bodies) Regulations, 2003 • Foreign Exchange Management (Removal of Difficulties) Order, 2000 • Foreign Exchange Management (Crystallization of Inoperative Foreign
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			<p>Currency Deposits) Regulations, 2014</p> <ul style="list-style-type: none"> • Foreign Exchange Management (Offshore Banking Unit) Regulations, 2002 • Foreign Exchange Management (International financial Services Centre) Regulations, 2015 • Foreign Exchange Management (Regularization of assets held abroad by a person Resident in India) Regulations, 2015
Chapter 7	Prohibition of Benami Property Transactions Act, 1988 and Rules/Regulations	The entire content included in the November 2019 edition of the Study Material and the Legislative amendments to be hosted on the website for November 2020 examinations, shall only be relevant for the said examinations.	Except the provisions covered under column (3), others are excluded.

Notes:

- (1) In the above table of Inclusion/exclusion, in respect of the Chapters of the syllabus specified in column (2) the related exclusion is given in column (4). 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.
- (2) November 2019 edition of the Study Material is relevant for November 2020 examinations. The amendments - made after the issuance of this Study Material – i.e. amendments webhosted for November 2020 examinations also shall be relevant for the said examinations. The Legislative amendments will be available on the BoS Knowledge Portal.
- (3) Except the exclusions mentioned in the column (4) of the table, the entire content of the syllabus included in the November 2019 edition of the Study Material and the Legislative amendments for November 2020 examinations shall be relevant for the said examinations.

Paper 6E: Global Financial Reporting Standards**1. Study Material to be referred**

In respect of Final Elective Paper 6E : Global Financial Reporting Standards (GFRS), students are advised to read Module 1 (except headings 1.1 to 1.6 of Chapter 2 Unit 1) to Module 4 (except Chapter 16 and Chapter 17) of Final Paper 1 : Financial Reporting (Revised August, 2019 edition) hosted at the BOS Knowledge Portal at https://www.icaai.org/post.html?post_id=14444. Reference of Ind AS material has been given because Ind AS alongwith the differences in Ind AS vis-à-vis IFRS is equivalent to IFRS.

The objective of this elective paper is to develop an understanding of the key concepts and principles of International Financial Reporting Standards (IFRS) and to acquire the ability to apply such knowledge to address issues and make computations in practical case scenarios. Accordingly, the students are expected to keep this objective in mind and read the content based on Ind AS discussed in Modules 1 to 4 of the core Paper 1 on Financial Reporting along with the differences vis-à-vis IFRS; and apply the same to address issues and make computations on the basis of IFRS.

In addition, the students are also required to develop an understanding of the significant differences between IFRS and US GAAP. The same has also been webhosted at the above link.

Students may note that at the end of certain Ind AS, appendix corresponding to relevant IFRIC / SIC has been appended. Since IFRICs / SICs are part of IFRS, they also form part of the syllabus.

2. Non-applicability of certain International Financial Reporting Standards (IFRS) and IFRS Interpretations (IFRICs)

Since the Core paper on Financial Reporting does not cover Ind AS equivalent to IAS 26, IAS 29 (including IFRIC 7), IFRS 4, IFRS 6, IFRS 14 and IFRS 17, the same IFRS shall also not form part of the GFRS Paper. Similarly, in applicable Ind AS there are no corresponding Appendix on IFRIC 2, IFRIC 9 and SIC 7, so they have not been discussed in the Core paper on Financial Reporting. Hence the same shall also not form part of the GFRS Paper.

3. Applicability of amendments made by circulars, notifications and other legislations

Students are expected to be updated with the notifications, circulars and other legislative amendments in Ind AS corresponding to IFRS, made upto 6 months prior to the examination. In specific, notification issued by the MCA on 30.3.2019 for amendments in Indian Accounting Standards is relevant for GFRS paper for November, 2020 examination with respect to IFRS.

Hence, IFRS 16 (which replaces Ind AS 17) is applicable for November, 2020 examination.

4. Scope of coverage of certain topics

As regards to the topic on 'Significant differences between IFRS and US GAAPs', the content as covered in the file uploaded on the website at the link <https://resource.cdn.icai.org/48696bos32691a.PDF> would be relevant for November, 2020 Examination.

Paper 6F: Multidisciplinary Case Study

The Multi-disciplinary case study would involve application of two or more of the seven core subjects at the Final level. List of seven core subject at final level is given as under:

Final Paper
Paper 1: Financial Reporting
Paper 2: Strategic Financial Management
Paper 3: Advanced Auditing and Professional Ethics
Paper 4: Corporate and Economic Laws
Paper 5: Strategic Cost Management and Performance Evaluation
Paper 7: Direct Tax Laws & International Taxation
Paper 8: Indirect Tax Laws

Note: The applicability/non-applicability of Standards/Guidance Notes/Legislative Amendments etc. for this paper for November, 2020 Examination would be the same as applicable for each of the above individual papers.

Paper 7 : Direct Tax Laws and International Taxation

Applicability of Finance Act, Assessment Year etc. for November, 2020 Examination

The provisions of direct tax laws, as amended by the Finance Act, 2019, Finance (No.2) Act, 2019 and the Taxation Laws (Amendment) Act, 2019 including significant notifications, circulars and press releases issued up to **30th April, 2020**, are applicable for November, 2020 examination. The relevant assessment year is **A.Y.2020-21**.

Note - The October 2019 edition of the Study Material is relevant for November, 2020 examination. The Statutory Update for November, 2020 examination, containing the amendments made by the Taxation Laws (Amendment) Act, 2019 and circulars/notifications/press releases issued upto 30.4.2020, but not covered in the October, 2019 edition of the Study Material; and the Judicial Update for November, 2020 examination would be webhosted at the BoS Knowledge Portal. These updates are important and relevant for November, 2020 examination.

Scope of coverage of certain topics in Part II: International Taxation

As regards certain topics on International Taxation, namely, Overview of Model Tax Conventions, Application & Interpretation of Tax Treaties and Fundamentals of Base Erosion

and Profit Shifting, the content as covered in the October, 2019 edition of the Study Material would be relevant for November, 2020 Examination.

Paper 8 : Indirect Tax Laws

The following are applicable for November 2020 examination:

- (i) The provisions of CGST Act, 2017 and IGST Act, 2017 as amended by the Finance (No. 2) Act, 2019, which have become effective up to 30th April, 2020, including significant circulars and notifications issued up to 30th April 2020.
- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance (No. 2) Act, 2019, including significant notifications and circulars issued up to 30th April 2020.

The Study Guidelines given below specify the exclusions from the syllabus for November 2020 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		
1(ii)	Levy and collection of CGST and IGST – Application of CGST/IGST law; Concept of supply including composite and mixed supplies, inter-State supply, intra-State supply, supplies in territorial waters; Charge of tax including reverse charge; Exemption from tax; Composition levy	(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) Categories of supply of goods, tax on which is payable on reverse charge basis
1(iv)	Time and Value of supply	Value of supply in cases where Kerala Flood Cess is applicable.
1(v)	Input tax credit	(i) Manner of determination of input tax credit in respect of inputs, input services and capital goods and reversal thereof in respect of real estate projects

		(ii) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
1(vii)	Procedures under GST including registration, tax invoice, credit and debit notes, electronic way bill, accounts and records, returns, payment of tax including tax deduction at source and tax collection at source, refund, job work	(i) Furnishing of GSTR-2, GSTR-1A and GSTR-3 (ii) Matching, reversal & reclaim of input tax credit (iii) Matching, reversal & reclaim of reduction in output tax liability
1(xv)	Other provisions	Transitional Provisions
Part-II: Customs & FTP		
1.(v)	Officers of Customs; Appointment of customs ports, airports etc.	Completely excluded
1.(vii)	Provisions relating to coastal goods and vessels carrying coastal goods	
1.(viii)	Warehousing	
1.(x)	Demand and Recovery	
1.(xi)	Provisions relating to prohibited goods, notified goods, specified goods, illegal importation/exportation of goods	
1.(xii)	Searches, seizure and arrest; Offences; Penalties; Confiscation and Prosecution	
1.(xiii)	Appeals and Revision; Advance Rulings; Settlement Commission	
1.(xiv)	Other provisions	

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

Notes:

(1) Applicability of the Finance (No. 2) Act, 2019

- (i) *Part I : GST* – The amendments made by the Finance (No. 2) Act, 2019 in the Central Goods and Services Tax Act, 2017 [hereinafter referred to as CGST Act, 2017] and the Integrated Goods and Services Tax, 2017 [hereinafter referred to as IGST Act, 2017] have become effective from 01.01.2020. Therefore, the same are applicable for November 2020 examinations.

However, select amendments made by the Finance (No. 2) Act, 2019 namely, amendments made in sections 2(4), 39, 50, 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 as on 30.04.2020. Therefore, the same are not applicable for November 2020 examinations.

- (ii) *Part II: Customs & FTP* - The amendments made by the Finance (No. 2) Act, 2019 in the Customs Act, 1962 and the Customs Tariff Act, 1975 are applicable for November 2020 examinations.
 - (iii) Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 introduced vide Chapter V of the Finance (No. 2) Act, 2019 is not applicable for November 2020 examinations.
- (2) 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.
- (3) October 2019 edition of the Study Material is relevant for May 2020 and November 2020 examinations. The amendments in the GST law and in the customs law and FTP - made after the issuance of this Study Material - to the extent covered in the Statutory Update for November 2020 examination alone shall be relevant for the said examination. The Statutory Update shall be hosted on the BoS Knowledge Portal.

Though the Statutory Update for November 2020 examination shall provide the precise scope and coverage of the amendments, for the sake of clarity, it may be noted that the following amendments shall not be applicable for November 2020 examinations:

- (i) The amendments made in the various provisions of the GST law namely, composition scheme, input tax credit, returns, interest on delayed payment of tax, e-way bill etc., for providing relief to the taxpayers in view of spread of Novel Corona Virus (COVID-19)
 - (ii) The amendments relating to transition plan with respect to Jammu and Kashmir reorganization w.e.f. 31.10.2019
 - (iii) The amendments providing the special procedure for taxpayers in Dadra and Nagar Haveli and Daman and Diu consequent to merger of the two UTs
 - (iv) The amendment specifying due dates for filing of GSTR-3B in a staggered manner for taxpayers having annual turnover below ₹ 5 crore in previous financial year
- (4) The entire content included in the October 2019 edition of the Study Material (except the exclusions mentioned herein) and the Statutory Update for November 2020 examination shall be relevant for the said examination.