

FINAL COURSE

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

© The Institute of Chartered Accountants of India

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Edition : September, 2020

Website : www.icaai.org

Department/Committee : Board of Studies

E-mail : bosnoida@icaai.in

Price : ₹ 75/-

ISBN No. :

Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi- 110 002, India

Typeset and designed at Board of Studies.

Printed by :

Contents

	Page Nos.
Objective & Approach	<i>i – vii</i>
Objective of Revision Test Paper	<i>i</i>
Planning & Preparing for Examination	<i>ii</i>
Subject-wise Guidance – An Overview	<i>iii</i>
Paper-wise RTPs	
Paper 5: Advanced Management Accounting	1 – 20
Paper 6: Information Systems Control and Audit	21 – 41
Paper 7: Direct Tax Laws	42 – 93
Paper 8: Indirect Tax Laws	94 – 115
Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November, 2020 - Final (Old) Examination	
	116 – 119

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 publications/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 and gone through the Suggested Answers of the earlier examinations. 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 you receive the RTP, you should have completed the entire syllabus of all the subjects at least once. RTP is an effective tool to revise and refresh your concepts and knowledge gained through the first round of study of the whole course. When the RTP reaches your hand, your study plan should have been completed as under:

❖ *Study Materials*

You must have finished reading the relevant Study Materials of all the subjects. Make sure you go through the Study Material as they cover the syllabus comprehensively and solve each and every question/illustration given therein to have a grasp of the application and computational aspects of the syllabus as well. .

❖ *Suggested Answers*

Giving an honest attempt to solve the previous attempts suggested answers on your own, will give you a flavour of the pattern of question paper and type of questions which are being asked in the examination.

After completing the above process, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTPs are provided to you to check your preparation standards and hence it must be solved on your own in a time-bound manner.

The stratagem and the fine points requiring careful consideration in respect of preparation for the CA examinations are explained in comprehensive details in BOS' publication "How to face CA Examinations? A Matrix of Winning Strategies". The publication may be referred to when you start preparing for a subject.

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: Advanced Management Accounting**

The Revision Test paper on Advanced Management Accounting covers 16 questions on the following topics:

Q No	Topic	About the Problem
1.	CVP Analysis	Question on CVP analysis.
2.	Decision Making	Question on decision making when the availability of resources is limited.
3.	Decision Making	Decision on closure of a division.

4.	Cost Plus/ Mark-up Pricing	Question on pricing of a product.
5.	Return on Investment Pricing	Question on pricing of a product.
6.	Budget – Ratio	Question on budget ratio.
7.	Customer Profitability Analysis	Practical Question on customer profitability analysis.
8.	Linear Programming	Question on formulation on linear programming.
9.	Assignment Problem – Minimisation	To determine the optimal assignment schedule in such a manner that the total costs are kept at a minimum.
10.	PERT/ CPM	Calculation of total float and free float for each activity.
11.	Simulation	Simulation of a cash flow problem.
12.	Learning Curve	A pricing question.
13.	Learning Curve	A question on life- time profitability.
14.	Relevant Cost Concept	A conceptual question on the relevant cost concept.
15.	Pricing Policy	A conceptual question on the pricing policy.
16.	Balanced Scorecard	A conceptual question on the balanced scorecard.

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

The Revision Test Paper on Information Systems Control and Audit is a supplementary tool that provides comprehensive view of the entire syllabus which is divided into eight chapters. It is based on the study material that is already provided to the students. The chapter-wise questions and answers are provided so that students could test their preparation level for the examination.

The RTP for November 2020 examination contains total 24 questions out of which first 8 questions numbered 1 to 8 are Multiple Choice Questions (MCQs). The Questions numbered 1 to 6 are based on Integrated Case Scenario and questions numbered 7 & 8 are independent MCQs to test Analysis and Application skillset of the student. Each MCQ has four options out of which only one option is correct and is based on individual chapter to ensure the coverage of complete syllabus.

Remaining 16 Descriptive questions numbered 9 to 24 are provided chapter-wise with 2 questions from each chapter. These questions have been selected from various topics keeping in view the complete and uniform coverage of the complete syllabus to check the students' preparedness on answering the questions based on different skill levels

“Comprehension & Knowledge” as well as “Analysis & Application”. All the questions are based on the practical oriented topics such as System Development Life Cycle (SDLC); Business Continuity Planning; Emerging Technologies, Information Security Standards, and Information Technology Act, 2000 etc. Full answer to each descriptive question is provided so that students would be benefited without searching the answers from various sources.

Students should read the given questions carefully and identify the relevant concept/s based on which the questions are to be answered. Here, we would also like to mention that RTP is only to refresh student's knowledge. This should be used by students as last-minute self-assessment tool before appearing in the examination.

Students may pick-up a question from RTP and try to write the answer by his/her own understanding. Afterwards, they should go through the answer of that question given in the RTP. By comparing both the answers, they will be able to understand the variations, if any in their answers. In this way, RTP may help them in introspection, up to some extent.

PAPER 7: DIRECT TAX LAWS

The provisions of direct tax laws, as amended by the Finance Act, 2019, Finance (No.2) Act, 2019, Taxation Laws (Amendment) Act, 2019 and significant notifications, circulars and press releases issued 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 for Final (New) Course Paper 7 is applicable for Final (Old) Course Paper 7 also with the exception of Chapters 6, 7 and 8 of Module 4. Thus, all chapters of Modules 1, 2 and 3 and chapters 1 to 5 of Module 4 of the Study Material for Final (New) Course Paper 7 would be applicable for Final (Old) Course Paper 7 also. However, whereas the syllabus of Final (New) Paper 7 is divided into two parts, namely, Direct Tax Laws and International Taxation, there is no such bifurcation in Final (Old) Paper 7.

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. 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 and circulars, notifications and press release

issued upto 30.4.2020 but not covered in the printed copy of the October 2019 edition of the Study Material. The Judicial Update for November, 2020 examination has been webhosted at the BoS Knowledge Portal on the Institute's website. 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 examination. 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 (Old) 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. This Study Material for Final (New Course)

Paper 8 is applicable for Final (Old Course) Paper 8 also. 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.icai.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: ADVANCED MANAGEMENT ACCOUNTING
QUESTIONS

CVP Analysis

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

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

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

Required

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

Decision Making

2. A company produces three products (X, Y and Z). Extracts from the original budget for December 2019 are shown below:

	X	Y	Z
Selling price (₹ per unit)	24	41	44
Total cost (₹ per unit)	20	20	35
Labour hours per unit	0.5	1.5	1.5
Machine hours per unit	1	2	0.75
Production and sales (units)	10,000	6,000	10,000

Variable costs are 40% of the total cost of each unit.

Fixed costs are absorbed at the rate of 150% of variable costs based on the budgeted production quantities as shown above.

It has now become known that during December 2019 essential maintenance work will have to be carried out. This will limit the availability of resources to

Labour Hours: 12,500 hours

Machine Hours: 30,000 hours

Required

Produce, using marginal costing principles, profit maximising production plan for December 2019 and the resulting profit or loss.

Decision Making

3. JCL Limited, a manufacturing company has three divisions: J, C and L. The company's all divisions are not performing well. Company wants to evaluate the potential closure of division "L". The cost and revenue information is given below:

	Division J and C (₹)	Division L (₹)	Total (₹)
Sales	1,70,000	24,000	1,94,000
Variable Cost	88,400	14,400	1,02,800
Contribution Margin	81,600	9,600	91,200
Traceable Fixed Cost	66,000	12,200	78,200
Divisional Profit	15,600	-2,600	13,000
Un-allocated fixed cost			5,000
Income before tax			8,000

Required

Calculate the increase or decrease in the profit after closure of division L if all traceable fixed cost of division L are avoidable. Should the division L be closed?

Assume that traceable fixed cost of division "L" having 50% of staff salary can be reassigned to other divisions. What is the effect of closure of division L with this assumption?

Cost Plus/ Mark-up Pricing

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

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

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

In the department machining and assembling the mallets, 6 men work 8 hours per day for 25 days in a month. Each worker can machine and assemble 12 mallets per uninterrupted 40 minutes time frame. In each 8 hours working day, 15 minutes are

allowed for coffee-break, 8 minutes on an average for training and 9 minutes for supervisory instructions. Besides 10% of each day is booked as idle time to cover checking in and checking out changing operations, getting materials and other miscellaneous matters. Workers are paid at a comprehensive rate of ₹ 6 per hour.

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

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

Required

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

Return on Investment Pricing

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

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

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

Required

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

Budget – Ratio

6. Calculate from the following figures:

- (i) Efficiency ratio,
- (ii) Activity, Ratio and
- (iii) Capacity Ratio:

Budgeted Production..... 528 units

Standard Hours per unit..... 10
 Actual Production..... 450 units
 Actual Working Hours..... 6,000

Customer Profitability Analysis

7. ABC Ltd., a manufacturer of sports goods, operates its entire business through its three customers i.e. Customer X, a retailer and Customer Y and Customer Z, who are wholesalers. ABC Ltd. prices its products at variable unit cost plus 20%.

Details of the company's customers (X, Y and Z) for the previous period are as follows:

Item	Customer X (Retailer)	Customer Y (Wholesaler)	Customer Z (Wholesaler)	Activity Rate
Order fulfilled (at variable cost plus 20%)	4 (each of ₹37,500)	12 (each of ₹2,12,500)	3 (each of ₹4,00,000)	₹600
Discount allowed (on order value)	5%	12.5%	12%	-
Regular Deliveries Made	4	0	3	₹250
Expedited Deliveries	2	0	2	₹750

Customer Y is given a 12.5% discount (instead of 12% usually given to wholesalers) for collecting the goods using its own transport.

Required

Present a customer profitability statement. Comment on the special discount to Y.

Linear Programming

8. Cake company produces three types of cakes – X, Y, and Z. It uses cream and flour as raw material of which 7,000 kg and 9,000 kg respectively are available. The raw material requirements per box of cake are given below:

	Requirement (kg/ box)		
Raw Material	X	Y	Z
Cream	3	4	5
Flour	5	3	5

The preparation time for each box of Cake X is three times that of Cake Y and 6 times that of Cake Z. The entire time of the firm can produce the equivalent of 5,000 boxes of cake X. The minimum production of X, Y and Z are 800, 950 and 900 boxes respectively.

Also, the ratios of the number of boxes produced of X and Y must be equal to 2:3. The profits per box of X, Y and Z are ₹ 1,000, ₹800 and ₹600 respectively

Required

Formulate the problem (no need to solve) as a liner programming model in order to maximize profit.

Present constraints with co-efficient of variables as minimum whole number values.

Assignment Problem – Minimisation

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

(₹)

	P	Q	R	S	T
X_1	9	11	15	10	11
X_2	12	9	--	10	9
X_3	--	11	14	11	7
X_4	14	8	12	7	8

Required

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

PERT/ CPM

10. The following table gives the activities in a construction project and the time duration of each activity:

Activity	Predecessors	Normal Time (Days)
A	---	16
B	---	20
C	A	8
D	A	10
E	B,C	6
F	D,E	12

Required

- (i) Draw the activity network of the project.

- (ii) Find critical path.
- (iii) Find the total float and free-float for each activity.

Simulation

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

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

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

Required

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

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

Learning Curve

12. The Crocodile Ltd. makes mementos for offering chief guests and other dignitaries at functions. A customer wants 4 identical pieces of hand-crafted gifts for 4 dignitaries invited to its function.

For this product, Company estimates the following costs for the 1st unit of the product.

Particulars of Costs	₹ / unit
Direct Variable Costs (excluding labour)	1,000
Direct Labour (20 hours @ ₹ 25 hour)	500

90 % learning curve ratio is applicable and one labourer works for one customer's order.

Required

- (i) What is the price per piece to be quoted for this customer if the targeted contribution is ₹ 750 per unit?

- (ii) If 4 different labourers made the 4 products simultaneously to ensure faster delivery to the customer, can the price at (i) above be quoted? Why?
13. West Wood Appliances Ltd. (WWAL) manufactures consumer durable products in a very highly competitive market. WWAL is considering launching a new product 'W-9' into the market and gathered the following data:

Expected Market Price- ₹ 5,000 per unit

Direct Material Cost- ₹ 1,850 per unit

Direct Labour Cost- ₹ 80 per hour

Variable Overhead Cost- ₹ 1,000 per unit

Packing Machine Cost (specially to be purchased for this product)- ₹5,00,000

WWAL expects the selling price for the new product will continue throughout the product's life and a total of 1,000 units can be sold over the entire lifetime of the product.

Direct labour costs are expected to reduce as the volume of output increases due to the effects of 80% learning curve (index is -0.3219). The expected time to be taken for the first unit is 30 hours and the learning effect is expected to end after 250 units have been produced. Units produced after first 250 units will take the same time as the 250th unit.

Required

- (i) Calculate the expected total labour hours over the life time of the product 'W-9'.
- (ii) Profitability of product 'W-9' that WWAL will earn over the life time of the product.
- (iii) Average target labour cost per unit over the life time of the product if WWAL requires average profit of ₹ 800 per unit, to achieve its long term objectives.

Note: $250^{-0.3219} = 0.1691$, $249^{-0.3219} = 0.1693$

Miscellaneous

14. Some statements are given below. Identify name of the cost with examples and state whether it is relevant/ non relevant in decision making.
- (i) Costs are historical costs which have already been incurred and can not change by any decision made in future.
- (ii) It is measure of benefits foregone by rejecting the second-best alternative of resources in favour of the best.
- (iii) It is portioning of cost which involves payments to outsiders i.e. it gives rise to cash expenditure as opposed to such costs as depreciation.
- (iv) Total cost is changed (increase or decrease) due to change in the level of activity, technology or production process or method of production.

- (v) Cost used in evaluation of a product to reflect the use of resources but that have no observable cost.
15. State the appropriate pricing policy in each of the following independent situations:
- 'W' is a new product for the company and the market and meant for large scale production and long term survival in the market. Demand is expected to be elastic.
 - 'X' is a new product for the company, but not for the market. B's success is crucial for the company's survival in the long term.
 - 'Y' is a new product to the company and the market. It has an inelastic market. There needs to be an assured profit to cover high initial costs and the usual sources of capital have uncertainties blocking them.
 - 'Z' is a perishable item, with more than 80% of its shelf life over.
16. Classify the following measures under appropriate categories in a Balanced Scorecard for a banking company which excels in its home loan products:
- A new product related to life insurance is being considered for a tie up with the successful housing loan disbursements.
e.g. every housing loan applicant to be advised to take a life policy or compelled to take a fire insurance policy.
 - How different sectors of housing loans with different interest rates have been sanctioned, their volumes of growth in the past 4 quarters.
 - How many days are taken to service a loan, how many loans have taken longer, what additional loans are to be released soon, etc.

SUGGESTED ANSWERS/HINTS

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

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

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

$$\begin{aligned}
 (\#) \text{ Fixed Cost} &= \text{Existing Sales} - \text{Existing Marginal Cost} - 12.5\% \text{ on } ₹4,00,000 \\
 &= ₹5,00,000 - ₹3,90,000 - ₹50,000 \\
 &= ₹60,000
 \end{aligned}$$

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

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

2.

	X	Y	Z	Total	Available
Labour hours per unit	0.50	1.5	1.5		
Machine hours per unit	1	2	0.75		
Production and sales (units)	10,000	6,000	10,000		
Labour hours needed for budget	5,000	9,000	15,000	29,000	12,500
Machine hours needed for budget	10,000	12,000	7,500	29,500	30,000

	X	Y	Z
Selling price (per unit)	24	41	44
Variable cost (per unit)	8	8	14
Contribution per unit	16	33	30
Labour hours (per unit)	0.5	1.5	1.5
Contribution per labour hour	32	22	20
Rank	1st	2nd	3rd

Available labour hours are 12,500, so company production plan would be

Product	Production	Hours	Balance
X	10,000	5,000	7,500
Y	5,000	7,500	NIL

Profitability Statement

	X	Y	Total
Output (units)	10,000	5,000	
Revenue	2,40,000	2,05,000	4,45,000
Variable costs	80,000	40,000	1,20,000
Contribution	1,60,000	1,65,000	3,25,000
Less: Fixed Costs*			4,02,000
Loss			(77,000)

- Fixed Cost is $(10,000 \times 12 + 6000 \times 12 + 10000 \times 21)$

3. Statement Showing Comparative Profit if all traceable cost of division L is avoidable

	Total operation of company if it		Benefit or cost to closure L
	Keep Division L	Closure of L	
Sales	1,94,000	1,70,000	(24,000)
Less: Variable Expenses	1,02,800	88,400	14,400
Contribution	91,200	81,600	(9,600)
Less: Total Fixed Cost	83,200	71,000	12,200
Profit	8,000	10,600	2,600

Profit will increase by ₹2,600 closure of division L

Effect of closure with assumption	(₹)
Reduction in variable cost	14,400
Reduction in FC (12,200-6,100)	<u>6,100</u>
Total Benefits	20,500
Reduction in Sales	<u>24,000</u>
Reduction in profit by closure of Div. L	3,500

4.

JTC Ltd.**Cost Sheet of One Lot of 250 Croquet Mallets**

Computation of Total Cost:		(₹)
Direct Material		
Handles (2.5 feet × 250 units × ₹50)		31,250

Heads ($1.20 \times 250 \times 0.40 \times ₹60$) [W.N.-1]	7,200
Less: Scrap Recovery ($4\% \times 50 \times ₹10$)	(20)
Direct Labour ($8\text{Hrs} \times ₹6 \times 250 / 120$) [W.N.-2]	100
Prime Cost	38,530
Factory & Other Overheads	
Variable, Finishing & Painting ($20,000 \times 250 / 20,000$) [W.N.-3]	250
Fixed ($₹72,000 \times 250 / 18,000$) [W.N.-4]	1,000
Total Cost	39,780
Price Quotation:	(₹)
Cost per mallet ($₹39,780 / 250$ Units)	159.12
Add: Profit (50% on Cost)	79.56
Selling Price	238.68

Working Notes

- Since 20% of completed heads are spoiled, output of 1 unit requires input of 1.20 units ($1 + 0.20$); so, total heads processed, 300 (1.20×250), of which spoiled heads are 50.
- | | | |
|--------------------------|-------------------|--------------------|
| Total Time in a day | (8×60) | 480 minutes |
| Less: Idle Time | 48 minutes | |
| Coffee Break | 15 minutes | |
| Instructions | 9 minutes | |
| Training | 8 minutes | <u>80 minutes</u> |
| Productive Time per day: | | <u>400 minutes</u> |

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

Since mallets are produced at the rate of 120 mallets per man day, so total monthly production will be 18,000 mallets ($120 \text{ units} \times 6 \text{ men} \times 25 \text{ days}$).
- Finishing and painting overheads are assumed to be variable for the production of 20,000 mallets.
- All the other expenses are fixed and are to be absorbed by 18,000 ($120 \text{ units} \times 6 \text{ men} \times 25 \text{ Days}$) mallets of monthly production.
- Return of 12% Net (after tax of 40%) on Capital Employed is equivalent to 20% (Gross) [$12\% \div (1 - 0.4)$] on Capital Employed.
Let Selling Price per unit to be 'K'

$$\begin{aligned}
 \text{Since Total Sales} &= \text{Total Cost} + \text{Profit} \\
 80,000 \text{ K} &= 14,60,000 + 20\% (12,00,000 + 0.5 \times 80,000\text{K}) \\
 \text{Or, } 80,000 \text{ K} &= 14,60,000 + 2,40,000 + 8,000\text{K} \\
 \text{Or, } 72,000 \text{ K} &= 17,00,000 \\
 \text{Or, 'K'} &= \frac{17,00,000}{72,000} \\
 &= ₹23.61
 \end{aligned}$$

Hence Selling Price per unit will be ₹23.61.

6. (i) Efficiency Ratio = $\frac{\text{Standard Hours (for actual production)}}{\text{Actual Hours (worked)}} \times 100$
- $$\begin{aligned}
 &= \frac{450 \text{ units} \times 10 \text{ hrs.}}{6,000 \text{ hrs.}} \times 100 \\
 &= 75\%
 \end{aligned}$$
- (ii) Activity Ratio = $\frac{\text{Standard Hours (for actual production)}}{\text{Budgeted Hours}} \times 100$
- $$\begin{aligned}
 &= \frac{450 \text{ units} \times 10 \text{ hrs.}}{528 \text{ units} \times 10 \text{ hrs.}} \times 100 \\
 &= 85.23\%
 \end{aligned}$$
- (iii) Capacity Ratio = $\frac{\text{Actual Hours (worked)}}{\text{Budgeted Hours}} \times 100$
- $$\begin{aligned}
 &= \frac{6,000 \text{ hrs.}}{528 \text{ units} \times 10 \text{ hrs.}} \times 100 \\
 &= 113.64\%
 \end{aligned}$$

7. Statement Showing Customer Profitability Analysis

Particulars	Customers X (Retailer)	Customer Y (Wholesaler)	Customers Z (Wholesaler)
Gross Revenue	1,50,000	25,50,000	12,00,000
Discount Allowed	7,500	3,18,750	1,44,000
Net Revenue	1,42,500	22,31,250	10,56,000
Variable Costs	1,25,000	21,25,000	10,00,000

Contribution	17,500	1,06,250	56,000
Order processing cost	2,400	7,200	1,800
Regular Deliveries	1,000	0	750
Expedited Deliveries	1,500	0	1,500
Net Profit	₹12,600	₹99,050	₹51,950
Profit Margin (%)	8.4%	3.88%	4.33%

Extra discount 0.5% of 25,50,000 = ₹12,750. B is the customer with highest order value. If Y required 15 expedited deliveries. It would cost the company ₹11,250. The discount is only marginally higher while also avoiding the risk of delay and consequent displeasure. Hence, it is justified.

8. Let the firm produced x boxes of Cake X, y boxes of Cake Y and z boxes of Cake Z.

The profit per box of Cake X, B and Z is 1,000, 800 and 600 respectively. Since objective of the firm is to maximize the profit, therefore, the objective function is given by

Maximize

$$Z = 1,000x + 800y + 600z$$

Condition-1:

The firm uses two raw materials cream and flour of which 7,000 and 9,000 units respective are available. As per the given data, the raw material constraints can be formulated as given below:

$$3x + 4y + 5z \leq 7,000 \text{ and}$$

$$5x + 3y + 5z \leq 9,000 \text{ and}$$

Condition-2;

The labour time for each box of Cake X is thrice that of cake Y and Six times that Cake Z. Also, the labour force can produce the equivalent of 5,000 boxes of Cakes.

$$x + y/3 + z/6 \leq 5,000 \text{ Or}$$

$$6x + 2y + z \leq 30,000$$

Condition-3:

The minimum demand of the three cakes is 800, 950 and 900 boxes respectively.

Hence,

$$x \geq 800,$$

$$y \geq 950,$$

$$z \geq 900,$$

Condition-4:

Since the ratios of the number of boxes produced of A & B must be equal to 2:3, therefore

$$\frac{1}{2}x = \frac{1}{3}y$$

$$3x = 2y$$

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

	P	Q	R	S	T
X_1	9	11	15	10	11
X_2	12	9	M	10	9
X_3	M	11	14	11	7
X_4	14	8	12	7	8
X_5 (Dummy)	0	0	0	0	0

Step 1

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

	P	Q	R	S	T
X_1	0	2	6	1	2
X_2	3	0	M	1	0
X_3	M	4	7	4	0
X_4	7	1	5	0	1
X_5 (Dummy)	0	0	0	0	0

Step 2

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

	P	Q	R	S	T
X_1	0	2	6	1	2
X_2	3	0	M	1	0
X_3	M	4	7	4	0

X₄	7	1	5	0	1
X₅ (Dummy)	0	0	0	0	0

Step 3

Draw lines to connect the zeros as under-

	P	Q	R	S	T
X₁	0	2	6	1	2
X₂	3	0	M	1	0
X₃	M	4	7	4	0
X₄	7	1	5	0	1
X₅ (Dummy)	0	0	0	0	0

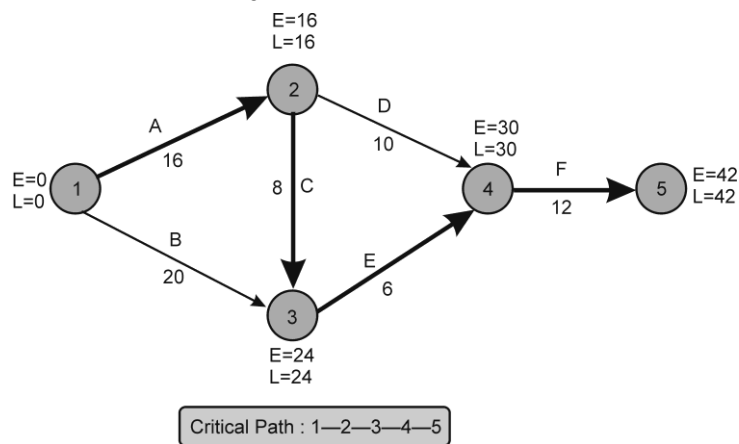
There are five lines which are equal to the order of the matrix. Hence the solution is optimal. We may proceed to make the assignment as under-

	P	Q	R	S	T
X₁	0	2	6	1	2
X₂	3	0	M	1	0
X₃	M	4	7	4	0
X₄	7	1	5	0	1
X₅ (Dummy)	0	0	0	0	0

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

Machines	Location	Costs (₹)
X ₁	P	9
X ₂	Q	9
X ₃	T	7
X ₄	S	7
X ₅ (Dummy)	R	0
Total		32

10. (i) The **Network** for the given problem:



(ii) **Critical Path:** 1-2-3-4-5 (A-C-E-F).

(iii) **Total Float** and **Free Float** for each activity:

Activity	Duration	EST	EFT	LST	LFT	Slack of Tail Event	Slack of Head Event	Total Float	Free Float
	D_{ij}	E_i	$E_i + D_{ij}$	$L_j - D_{ij}$	L_j	$L_i - E_i$	$L_j - E_j$	$LST - EST$	Total Float - Slack of Head Event
A (1-2)	16	0	16	0	16	0	0	0	0
B (1-3)	20	0	20	4	24	0	0	4	4
C (2-3)	8	16	24	16	24	0	0	0	0
D (2-4)	10	16	26	20	30	0	0	4	4
E (3-4)	6	24	30	24	30	0	0	0	0
F (4-5)	12	30	42	30	42	0	0	0	0

11. Allocation of Random Numbers

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

Simulation Table

(& in 000)

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

12. (i)

& / u Avg. / unit (4 units)	
Variable Cost	1,000
Labour	405
Target Contribution	750
Price to be Quoted	2,155

- (ii) No, Corcodile Ltd. cannot quote this price for varying products because the learning curve Ratio does not apply to non-repeated jobs. Each product will carry a different price according to its direct labour hours.

13. Calculation of Total Labour Hours Over the Life Time of The Product 'W-9'*The average time per unit for 250 units*

$$Y_x = ax^b$$

$$\text{Or, } Y_{250} = 30 \times 250^{-0.3219}$$

$$\text{Or, } Y_{250} = 30 \times 0.1691$$

$$\text{Or, } Y_{250} = 5.073 \text{ hours}$$

$$\begin{aligned} \text{Total time for 250 units} &= 5.073 \times 250 \text{ units} \\ &= 1,268.25 \text{ hours} \end{aligned}$$

The average time per unit for 249 units

$$Y_{249} = 30 \times 249^{-0.3219}$$

$$\text{Or, } Y_{249} = 30 \times 0.1693$$

$$\text{Or, } Y_{249} = 5.079 \text{ hours}$$

$$\begin{aligned} \text{Total time for 249 units} &= 5.079 \times 249 \text{ units} \\ &= 1,264.67 \text{ hours} \end{aligned}$$

$$\begin{aligned} \text{Time for 250}^{\text{th}} \text{ unit} &= 1,268.25 \text{ hours} - 1,264.67 \text{ hours} \\ &= 3.58 \text{ hours} \end{aligned}$$

$$\begin{aligned} \text{Total Time for 1,000 units} &= (750 \times 3.58 \text{ hours}) + 1,268.25 \text{ hours} \\ &= 3,953.25 \text{ hours} \end{aligned}$$

Profitability of the Product 'W-9'*Sales 1,000 Units*

Particulars	Amount (Rs.)
Sales	50,00,000
Less: Direct Material	18,50,000
Direct Labour (3,953.25 hours × Rs. 80)	3,16,260
Variable Overheads (1,000 units × Rs. 1,000)	10,00,000
Contribution	18,33,740
Less: Packing Machine Cost	5,00,000
Profit	13,33,740

Average Target Labour Cost *per unit*

Particulars	Amount (Rs.)
Expected Sales Value	50,00,000
Less: Desired Profit (1,000 units × Rs. 800)	8,00,000
Target Cost	42,00,000
Less: Direct Material (1,000 units × Rs. 1,850)	18,50,000
Variable Cost (1,000 units × Rs. 1,000)	10,00,000
Packing Machine Cost	5,00,000
Target Labour Cost	8,50,000
Average Target Labour Cost <i>per unit</i> (Rs. 8,50,000 ÷ 1,000 units)	850

14.

	Name of the cost	Example	Relevant/ non relevant
(i)	Sunk Cost	Written down value of machine already purchased	Not relevant in decision making
(ii)	Opportunity Cost	Funds invested in business or deposited into bank	Useful in decision making
(iii)	Out of Pocket Costs	Commission to salesman on sales, Carriage inward.	Relevant for decision making
(iv)	Differential Cost	Include all fixed and variable cost which are increased/ decreased	Relevant in specific decision making
(v)	Notional Cost	Notional Rent for use of space	Relevant if company actually benefit by using resources alternatively

15.

Situation		Appropriate Pricing Policy
(i)	'W' is a new product for the company and the market and meant for large scale production and long term survival in the market. Demand is expected to be elastic.	Penetration Pricing
(ii)	'X' is a new product for the company, but not for the market. X's success is crucial for the company's survival in the long term.	Market Price or Price Just Below Market Price

(iii)	'Y' is a new product to the company and the market. It has an inelastic market. There needs to be an assured profit to cover high initial costs and the unusual sources of capital have uncertainties blocking them.	Skimming Pricing
(iv)	'Z' is a perishable item, with more than 80% of its shelf life over.	Any Cash Realizable Value*

(*) *this amount decreases every passing day.*

16. (i) New Product *tie up* --- Innovation / Learning Perspective
(ii) Growth of Volume --- Financial Perspective
(iii) Time for Loan / Fresh Products --- Customer Perspective

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

Multiple Choice Questions

Questions No.(s) 1 to 6 are based on the Case Scenario. Remaining two question no(s). 7 and 8 are independent questions.

VK Textile Cotton Fabrics Private Limited is an export unit established in the year 2016. Company manufactures Cotton Fabrics in India and exports it to some foreign countries also. In December 2019, the company acquired a manufacturing unit situated in Dubai (UAE). Presently, Company is going in the process of listing in Bombay Stock Exchange and National Stock Exchange for listing its securities. Mr. Sameer Jain joined the Company as Chief Executive Officer (CEO) with effect from 01st January 2020. After taking his duty charge; he held various meetings with the company's management and stakeholders and presented a unified proposal on future of the company in meeting which are as given below:

- Expansion of the company business in other foreign countries includes European, Gulf and Asia-Pacific Countries.
- Providing best quality products under reasonable prices i.e., Value for money for its customers worldwide.
- Spreading out e-commerce business activities and online presence worldwide.
- Proposing Sales Plan (Budget) Turnover setting for the incoming Financial Year (2020-2021) to ₹ 2500 Crores from present budgeted turnover of ₹ 800 Crores in the Current Financial Year (2019-2020) with the help of strong boost sales, marketing strategy and corporate branding.
- Recognition of International ISO Certification to adopt IS and Process Audit.
- Stringent implementation of IS security policy.
- Adoption of new and emerging IT technologies includes Cloud Computing, Mobile Computing, Green Computing etc. for the company.
- Adoption of best practices of Corporate and Business Governance and COBIT 5 framework.
- Undertaking of a Business Process Reengineering (BPR) project in support of a new and direct marketing approach to its customers.
- Shifting to maintenance of all records and documents in electronic digitalized form.
- Reciprocal agreement for disaster recovery with another company called G.K. Global Textile and Cotton Fabrics Limited (already a listed entity in Bombay Stock Exchange) w.e.f. 25th February, 2020.

Based on the above case, answer the following questions (1 to 6):

1. VK Textile Cotton Fabrics Private Limited has decided to enter into a reciprocal agreement as one of the strategies of Disaster Recovery Planning. Which of the following risk treatment approach does it indicate?
 - (a) Risk Transfer
 - (b) Risk Avoidance
 - (c) Risk Mitigation
 - (d) Risk Acceptance
2. VK Textile Cotton Fabrics Private Limited has decided to enter into a reciprocal agreement as one of the strategies of Disaster Recovery Planning. Which of the following represents the greatest risk created by reciprocal agreement for Disaster Recovery made between two companies - G.K. Global Textile and Cotton Fabrics Limited?
 - (a) The security infrastructure in each company may be different.
 - (b) The recovery plan cannot be tested.
 - (c) The resources may not be available when needed.
 - (d) The development in any company may result in hardware and software incompatibility.
3. Suppose you are an IS auditor of VK Textile Cotton Fabrics Private Limited. Company undertakes a Business Process Reengineering (BPR) project in support of a new and direct marketing approach to its customers through establishment of new innovative information support system. Which of the following would be your primary key concern about the new process?
 - (a) Are key controls in place to protect assets and information resources?
 - (b) Does it address the corporate customer requirements?
 - (c) Does system meet the performance goals (time and resource)?
 - (d) Are owners responsible for various processes have been identified?
4. Suppose you are appointed as an IS auditor of VK Textile Cotton Fabrics Private Limited. The activities that would be involved in Information Systems' Audit are as follows:
 - (i) Planning
 - (ii) Close
 - (iii) Analysis

- (iv) Reporting
- (v) Fieldwork
- (vi) Scoping

How will you conduct IS audit in correct order/manner?

- (a) (ii), (i), (iv), (iii), (vi), (v)
 - (b) (iii), (ii), (i), (iv), (v), (vi)
 - (c) (i), (iii), (ii), (iv), (v), (vi)
 - (d) (vi), (i), (v), (iii), (iv), (ii)
5. VK Textile Cotton Fabrics Private Limited is planning to keep all records and documents in electronic form. Which of the following section of Information Technology Act 2000 provides that the documents, records or information which are to be retained for any specified period shall be deemed to have been retained if the same are retained in the electronic form?
- (a) Section 4
 - (b) Section 5
 - (c) Section 6
 - (d) Section 7
6. Which of the following emerging technology would have been adopted by VK Textile Cotton Fabrics Private Limited that promotes the practice of using computers and IT resources in a more efficient environmentally friendly and responsible way?
- (a) Grid Computing
 - (b) Cloud Computing
 - (c) Virtualization
 - (d) Green Computing
7. Under the phase of Feasibility Study of System Development Life Cycle (SDLC), what possible dimension of the proposed web-based knowledge portal system of XYZ University is said to have been compromised in a situation if the students of the university are not able to access the e-resources available on university's website anytime?
- (a) Technical Feasibility
 - (b) Resource Feasibility
 - (c) Behavioral Feasibility

- (d) Economic Feasibility
- 8. Identify the Information System that would be useful for an organization in case it wishes to remotely access its documents for internal communication.
 - (a) Electronic Message Communication System
 - (b) Text Processing System
 - (c) Teleconferencing and Videoconferencing System
 - (d) Electronic Document Management System

DESCRIPTIVE QUESTIONS

Chapter 1: Concepts of Governance and Management of Information Systems

- 9. COBIT 5 explains various principles and enablers to act as a single business framework for the seamless Governance and Management of Enterprises IT. Discuss in detail the term “Enablers” in context of COBIT 5.
- 10. Discuss Information Systems Assurance. How COBIT 5 can play a role in achieving Information Systems assurance?

Chapter 2: Information System Concepts

- 11. Systems help to collect, store, and analyse data to produce the desired information for the functioning, betterment and expansion of any business. Classify the systems based on following parameters:
 - (a) Interactive Behavior
 - (b) Working/Output
- 12. In an organization PQR Ltd., Mr. A works as an Operational Manager who operates an Information system that helps him improving the operational efficiency of his organization. Identify the Information system he is working on and further discuss various activities that are performed by such a system.

Chapter 3: Protection of Information Systems

- 13. An internet connection along with providing benefits to an organization in terms of business competitiveness and time management, speed of operations etc. exposes it to harmful elements also. How can an organization be protected against these harmful elements?
- 14. In an enterprise ABC, the controls related to Operations management are responsible for the daily running of its hardware and software facilities. Discuss the functions over which these controls are implemented.

Chapter 4: Business Continuity Planning and Disaster Recovery Planning

15. The development of Business Continuity Planning (BCP) in an organization is prepared using a methodology having eight different phases. However, the extent of applicability of each phase can be tailored according to the respective organization. Elaborate these phases involved in the development of BCP.
16. In a BCP Audit; the auditor is expected to evaluate whether the processes of developing and maintaining are documented, communicated and tested plans for continuity of business operations are in place. List some BCP audit steps that an auditor will have to take regarding Building, Utilities and Transportation.

Chapter 5: Acquisition, Development and Implementation of Information Systems

17. Accountants are uniquely qualified to participate in systems development as they may combine knowledge of IT, business, accounting and internal control to ensure that new systems meet the needs of the user and possess adequate internal controls. Discuss the various aspects in which an accountant can help in system development.
18. Elaborate the major activities that are involved in Database Designing of System Designing phase of Systems Development Life Cycle.

Chapter 6: Auditing of Information Systems

19. (a) Explain the term Information Systems Audit.
(b) Consider yourself to be an IS Auditor. Discuss the skill set that is expected to be acquired by you to undertake any Auditing assignment.
20. Application Controls refer to the transactions and data relating to each computer-based application system and are therefore, specific to each such application. Comprehend the various types of Application Controls. Also discuss the types of Audit Trails that exist.

Chapter 7: Information Technology Regulatory Issues

21. The MRA Marg police of Mumbai received an email at 9:30 am on 17th August 2011 challenging the local security agencies to prevent a terror attack in Mumbai. On detailed investigation, it was found that the IP address of the sender was traced to Patna in Bihar and the email was created 10 minutes before the email was sent. The sender while creating the new email-id had given two mobile numbers in the personal details' column. Both the numbers belonged to a photo frame-maker in Patna. Further probing led to the arrest of the email sender named Mr. X who was found to have criminal record having involved in terror related activities. The MRA Marg police registered a case of cyber-terrorism under the IT Act, 2000 against Mr. X. Identify and elaborate the Section under which Mr. X is held guilty.

22. List down the various norms recommended by SEBI for the following:

- (i) Systems Audit (ii) Audit Report Norms

Chapter 8: Emerging Technologies

23. Infrastructure as a Service (IaaS) is a service model under Cloud Computing that provides computing resources such as processing power, data communication, data storage and networks for cloud users etc. to run their application on-demand. Elaborate different instances of IaaS related to the aforesaid features.
24. Mobile Computing is a versatile and strategic technology that increases information quality and accessibility, enhances operational efficiency and improves management effectiveness. However, many issues are related with Mobile Computing. Discuss them.

SUGGESTED ANSWERS/HINTS

MULTIPLE CHOICE ANSWERS

1. (c) Risk Mitigation
2. (d) The development in any company may result in hardware and software incompatibility.
3. (a) Are key controls in place to protect assets and information resources?
4. (d) (vi), (i), (v), (iii), (iv), (ii)
5. (d) Section 7
6. (d) Green Computing
7. (c) Behavioral Feasibility
8. (d) Electronic Document Management System

DESCRIPTIVE ANSWERS

9. In context of COBIT 5; Enablers are factors that, individually and collectively, influence whether something will work in governance and management of enterprise IT. Enablers are driven by the goals cascade i.e. higher-level IT related goals defining 'what the different enablers should achieve'.

The COBIT 5 framework describes seven categories of enablers, which are as follows:

- (i) **Principles, Policies and Frameworks** are the vehicle to translate the desired behavior into practical guidance for day-to-day management.

- (ii) **Processes** describe an organized set of practices and activities to achieve certain objectives and produce a set of outputs in support of achieving overall IT-related goals.
 - (iii) **Organizational structures** are the key decision-making entities in an enterprise.
 - (iv) **Culture, Ethics and Behavior** of individuals and of the enterprise is very often underestimated as a success factor in governance and management activities.
 - (v) **Information** is pervasive throughout any organization and includes all information produced and used by the enterprise. Information is required for keeping the organization running and well governed, but at the operational level, information is very often the key product of the enterprise itself.
 - (vi) **Services, Infrastructure and Applications** include the infrastructure, technology and applications that provide the enterprise with information technology processing and services.
 - (vii) **People, Skills and Competencies** are linked to people and are required for successful completion of all activities and for making correct decisions and taking corrective actions.
- 10. Information Systems Assurance:** In the rapidly changing digital world, enterprises are inundated with new demands, stringent regulations and risk scenarios emerging daily, making it critical to effectively govern and manage information and related technologies. This has resulted in enterprise leaders being under constant pressure to deliver value to enterprise stakeholders by achieving business objectives. This has made it imperative for management to ensure effective use of information and technology investments and related IT for not only supporting enterprise goals but also to maintain compliance with internally directed and externally imposed regulations. This dynamic changing environment enforces the usage of globally accepted good practices and frameworks and developing a holistic approach which meets the needs of stakeholders.

Using COBIT 5 for Information System Assurance

Auditors will have to understand the business processes of the enterprises and organization structure to be effective. This understanding of the business process must be coupled with understanding of the enterprise's policies, procedures and practices as implemented. Any enterprise executes its business operations through its staff who need to have defined job responsibilities, which are provided in the organization structure. The organization structure needs to have internal control structure. IT implementation in the enterprise makes it imperative that the internal control structure is built into the IT as deployed. Further, IT impacts the way business operations could be performed and internal controls are implemented. Hence, it is critical for auditors to understand the organization

structure of the enterprise being audited as relevant to the objectives and scope of the assignment.

- COBIT 5 has been engineered to meet expectations of multiple stakeholders. It is designed to deliver benefits to both an enterprise's internal stakeholders, such as the board, management, employees, etc. as well as external stakeholders - customers, business partners, external auditors, shareholders, consultants, regulators, etc.
- It is written in a non-technical language and is therefore, usable not only by IT professionals and consultants but also by senior management personnel, assurance providers; regulators for understanding and addressing IT related issues as relevant to them.
- Globally from the GRC perspective, COBIT has been widely used with COSO by management, IT professionals, regulators and auditors (internal/external) for implementing or evaluating Governance and management practices from an end-to-end perspective.
- COBIT has been used as an umbrella framework under which other standards and approaches, such as ITIL, ISO 27001 etc. have been integrated into overall enterprise governance.

11. (a) **Based on Interactive behavior:** Systems may be classified as **Open Systems** or **Closed System** based on 'how the system interacts with environment'.

- An **Open System** interacts with other systems in its environment. For example; Information system is an open system because it takes input from the environment and produces output to the environment, which changes as per the changes in the environment.
- **Closed System** does not interact with the environment and does not change with the changes in environment. Consider a 'throw-away' type sealed digital watch, which is a system, composed of several components that work in a cooperative fashion designed to perform some specific task. This watch is a closed system as it is completely isolated from its environment for its operation.

(b) **Based on Working/Output:** Based on the working style and the output, the systems can be classified as **Deterministic** and **Probabilistic System**.

- A **Deterministic System** operates in a predictable manner. For example - software that performs on a set of instructions is a deterministic system.
- A **Probabilistic System** can be defined in terms of probable behavior. For example - inventory system is a probabilistic system where the average demand, average time for replenishment, etc. may be defined, but the exact value at any given time is not known.

12. Mr. A is working on a Transaction Processing System (TPS) that helps him in improving the operational efficiency of his organization PQR Ltd.

Transaction Processing Systems (TPS) - At the lowest level of management, TPS is an information system that manipulates data from business transactions. Any business activity such as sales, purchase, production, delivery, payments or receipts involves transaction and these transactions are to be organized and manipulated to generate various information products for external use. For example, selling of a product to a customer will give rise to the need of further information like customer billing, inventory status and increase in account receivable balance. TPS will thus record and manipulate transaction data into usable information.

The various activities performed by TPS are as follows:

- Capturing data to organize in files or databases;
- Processing of files/databases using application software;
- Generating information in the form of reports; and
- Processing of queries from various quarters of the organization.

A TPS may follow the periodic data preparation and batch processing (as in payroll application) or on-line processing (as in inventory control application). However, in industries and business houses, now-a-days on-line approach is preferred in many applications as it provides information with up-to-date status. However, the people involved in TPS usually are not able to take any management decision.

13. An Internet connection exposes an organization to the entire world. This brings up the issue of benefits the organization should derive along with the precaution against harmful elements. This can be achieved through the following means:
- **Policy on use of network services:** An enterprise wide policy applicable to internet service requirements aligned with the business need for using the Internet services is the first step. Selection of appropriate services and approval to access them should be part of this policy.
 - **Enforced path:** Based on risk assessment, it is necessary to specify the exact path or route connecting the networks; e.g., internet access by employees will be routed through a firewall and proxy.
 - **Segregation of networks:** Based on the sensitive information handling function; say a VPN connection between a branch office and the head-office, this network is to be isolated from the internet usage service.

- **Network connection and routing control:** The traffic between networks should be restricted, based on identification of source and authentication access policies implemented across the enterprise network facility.
 - **Security of network services:** The techniques of authentication and authorization policy should be implemented across the organization's network.
 - **Firewall:** Organizations connected to the Internet and Intranet often implements an electronic firewall to insulate their network from intrude. A Firewall is a system that enforces access control between two networks. To accomplish this, all traffic between the external network and the organization's Intranet must pass through the firewall. Only authorized traffic between the organization and the outside is allowed to pass through the firewall. The firewall must be immune to penetrate from both outside and inside the organization. In addition to insulating the organization's network from external networks, firewalls can be used to insulate portions of the organization's Intranet from internal access also.
 - **Encryption:** Encryption is the conversion of data into a secret code for storage in databases and transmission over networks. The sender uses an encryption algorithm and the original message called the clear text is converted into cipher text. This is decrypted at the receiving end. The encryption algorithm uses a key. The more bits in the key, the stronger are the encryption algorithms. Two general approaches are used for encryption viz. private key and public key encryption.
 - **Call Back Devices:** It is based on the principle that the key to network security is to keep the intruder off the Intranet rather than imposing security measure after the criminal has connected to the intranet. The call- back device requires the user to enter a password and then the system breaks the connection. If the caller is authorized, the call back device dials the caller's number to establish a new connection. This limits access only from authorized terminals or telephone numbers and prevents an intruder masquerading as a legitimate user. This also helps to avoid the call forwarding and man-in-the middle attack.
14. Operations management is responsible for the daily running of hardware and software facilities. Operations management typically performs controls over the following functions as mentioned below:
- (a) **Computer Operations:** The controls over computer operations govern the activities that directly support the day-to-day execution of either test or production systems on the hardware/software platform available. Three types of controls fall under this category:
- **Operation controls:** These controls prescribe the functions that either human operators or automated operations facilities must perform.

- **Scheduling controls:** These controls prescribe how jobs are to be scheduled on a hardware/software platform.
 - **Maintenance controls:** These controls prescribe how hardware is to be maintained in good operating order.
- (b) **Network Operations:** This includes the proper functioning of network operations and monitoring the performance of network communication channels, network devices, and network programs and files. Data may be lost or corrupted through component failure. Communication lines viz. twisted pair, coaxial cables, fibre optics, microwave and satellite etc.; Hardware in terms of ports, modems, multiplexers, switches and concentrators etc.; Software - Packet switching software, polling software, data compression software etc.; and the transmission disruption/destruction or corruption between sender and receiver due to failure of any component.
- (c) **Data Preparation and Entry:** Irrespective of whether the data is obtained indirectly from source documents or directly from say customers, keyboard environments and facilities should be designed to promote speed and accuracy and to maintain the well-being of keyboard operators.
- (d) **Production Control:** This includes the major functions like- receipt and dispatch of input and output; job scheduling; management of service-level agreements with users; transfer pricing/charge-out control; and acquisition of computer consumables.
- (e) **File Library:** This includes the management of an organization's machine-readable storage media like magnetic tapes, cartridges, and optical disks.
- (f) **Documentation and Program Library:** This involves that documentation librarians ensure that documentation is stored securely; that only authorized personnel gain access to documentation; that documentation is kept up-to-date and that adequate backup exists for documentation. The documentation may include reporting of responsibility and authority of each function; Definition of responsibilities and objectives of each functions; Reporting responsibility and authority of each function; Policies and procedures; Job descriptions and Segregation of duties.
- (g) **Help Desk/Technical support:** This assist end-users to employ end-user hardware and software such as micro-computers, spreadsheet packages, database management packages etc. and provided the technical support for production systems by assisting with problem resolution.
- (h) **Capacity Planning and Performance Monitoring:** Regular performance monitoring facilitates the capacity planning wherein the resource deficiencies must be identified well in time so that they can be made available when they are needed.

- (i) **Management of Outsourced Operations:** This has the responsibility for carrying out day-to-day monitoring of the outsourcing contract.
15. The phases that are involved in the development of Business Continuity Planning (BCP) are as follows:
- **Phase 1 – Pre-Planning Activities (Project Initiation):** This Phase is used to obtain an understanding of the existing and projected computing environment of the organization. This enables the project team to refine the scope of the project and the associated work program; develop project schedules; and identify and address any issues that could have an impact on the delivery and the success of the project.

During this phase, a Steering Committee should be established. The committee should have the overall responsibility for providing direction and guidance to the Project Team. The committee should also make all decisions related to the recovery planning effort. The Project Manager should work with the Steering Committee in finalizing the detailed work plan and developing interview schedules for conducting the Security Assessment and the Business Impact Analysis. Two other key deliverables of this phase are the development of a policy to support the recovery programs; and an awareness program to educate management and senior individuals who will be required to participate in the project.
 - **Phase 2 – Vulnerability Assessment and General Definition of Requirements:** It is preferable from an economic and business strategy perspective, to concentrate on activities that have the effect of reducing the possibility of disaster occurrence, rather than concentrating primarily on minimizing impact of an actual disaster. This phase addresses measures to reduce the probability of occurrence and include the following key tasks:
 - A thorough Security Assessment of the computing and communications environment including personnel practices; physical security; operating procedures; backup and contingency planning; systems development and maintenance; database security; data and voice communications security; systems and access control software security; insurance; security planning and administration; application controls; and personal computers.
 - The Security Assessment will enable the project team to improve any existing emergency plans and disaster prevention measures and to implement required emergency plans and disaster prevention measures where none exist.
 - Present findings and recommendations resulting from the activities of the Security Assessment to the Steering Committee so that corrective actions can be initiated in a timely manner.
 - Define the scope of the planning effort.
 - Analyze, recommend and purchase recovery planning and maintenance

software required to support the development of the plans and to maintain the plans current following implementation.

- Develop a Plan Framework.
- Assemble Project Team and conduct awareness sessions.
- **Phase 3 – Business Impact Assessment (BIA):** A Business Impact Assessment (BIA) of all business units that are part of the business environment enables the project team to identify critical systems, processes and functions; assess the economic impact of incidents and disasters that result in a denial of access to systems services and other services and facilities; and assess the “pain threshold,” that is, the length of time business units can survive without access to systems, services and facilities.

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

- **Phase 4 – Detailed Definition of Requirements:** During this phase, a profile of recovery requirements is developed. This profile is to be used as a basis for analyzing alternative recovery strategies. The profile is developed by identifying resources required to support critical functions identified in Phase 3. This profile should include hardware (mainframe, data and voice communications and personal computers), software (vendor supplied, in-house developed, etc.), documentation (DP, user, procedures), outside support (public networks, DP services, etc.), facilities (office space, office equipment, etc.) and personnel for each business unit. Recovery Strategies will be based on short term, intermediate term and long-term outages. Another key deliverable of this phase is the definition of the plan scope, objectives and assumptions.
- **Phase 5 – Plan Development:** During this phase, recovery plans components are defined and plans are documented. This phase also includes the implementation of changes to user procedures, upgrading of existing data processing operating procedures required to support selected recovery strategies and alternatives, vendor contract negotiations (with suppliers of recovery services) and the definition of Recovery Teams, their roles and responsibilities. Recovery standards are also developed during this phase.
- **Phase 6 – Testing/Exercising Program:** The plan Testing/Exercising Program is developed during this phase. Testing/exercising goals are established, and alternative testing strategies are evaluated. Testing strategies tailored to the environment should be selected and an on-going testing program should be established.

- **Phase 7 – Maintenance Program:** Maintenance of the plans is critical to the success of an actual recovery. The plans must reflect changes to the environments that are supported by the plans. It is critical that existing change management processes are revised to take recovery plan maintenance into account. In areas, where change management does not exist, change management procedures will be recommended and implemented. Many recovery software products take this requirement into account.
- **Phase 8 – Initial Plan Testing and Implementation:** Once plans are developed, initial tests of the plans are conducted and any necessary modifications to the plans are made based on an analysis of the test results. Specific activities of this phase include defining the test purpose/approach; identifying test teams; structuring the test; conducting the test; analyzing test results; and modifying the plans as appropriate.

The approach taken to test the plans depends in large part, on the recovery strategies selected to meet the recovery requirements of the organization. As the recovery strategies are defined, specific testing procedures should be developed to ensure that the written plans are comprehensive and accurate.

16. Some BCP audit steps that an auditor will have to take regarding Building, Utilities and Transportation are as follows:
- Does the disaster recovery/ business resumption plan have a provision for having a building engineer inspect the building and facilities soon after a disaster so that damage can be identified and repaired to make the premises safe for the return of employees as soon as possible?
 - Does the disaster recovery/business resumption plan consider the need for alternative shelter, if needed? Alternatives in the immediate area may be affected by the same disaster.
 - Review any agreements for use of backup facilities.
 - Verify that the backup facilities are adequate based on projected needs (telecommunications, utilities, etc.). Will the site be secure?
 - Does the disaster recovery/ business resumption plan consider the failure of electrical power, natural gas, toxic chemical containers, and pipes?
 - Are building safety features regularly inspected and tested?
 - Does the plan consider the disruption of transportation systems? This could affect the ability of employees to report to work or return home. It could also affect the ability of vendors to provide the goods needed in the recovery effort.

17. An accountant can help in various related aspects during system development; some of them are as follows:
- (i) **Return on Investment (Rol):** This defines the return; an entity shall earn on a particular investment i.e. capital expenditure. This financial data is a prime consideration for any capital expenditure entity decides to incur. The important data required for this analysis being the cost of project, the expected revenue/benefit for a given period. The analysis ideally needs to be done before the start of the development efforts for better decision making by management. For this analysis following data needs to be generated. This includes estimates for typical costs like - **Development Costs** for a computer based information system that include costs of the system development process like salaries of developers; **Operating Costs** including hardware/software rental or depreciation charges; salaries of computer operators and other data processing personnel, who will operate the new system and **Intangible Cost** that cannot be easily measured.
 - (ii) **Computing Cost of IT Implementation and Cost Benefit Analysis:** For analysis of Rol, accountants need the costs and returns from the system development efforts. For correct generation of data, proper accounting needs to be done. Accountants shall be the person to whom management shall look for the purpose.
18. **Design of Database:** Design of the database involves determining its scope ranging from local to global structure. The scope is decided based on the interdependence among organizational units. The design of the database involves four major activities, which are as follows:
- **Conceptual Modeling:** These describe the application domain via entities/objects, attributes of these entities/objects and static and dynamic constraints on these entities/objects, their attributes, and their relationships.
 - **Data Modeling:** Conceptual Models need to be translated into data models so that they can be accessed and manipulated by both high-level and low-level programming languages.
 - **Storage Structure Design:** Decisions must be made on how to linearize and partition the data structure so that it can be stored on some device. For example - tuples (row) in a relational data model must be assigned to records, and relationships among records might be established via symbolic pointer addresses.
 - **Physical Layout Design:** Decisions must be made on how to distribute the storage structure across specific storage media and locations for example, the cylinders, tracks, and sectors on a disk and the computers in a LAN or WAN.

19. (a) The Information Systems (IS) Audit of an Information System environment may include one or both of the following:

- Assessment of internal controls within the IS environment to assure validity, reliability, and security of information and information systems.
- Assessment of the efficiency and effectiveness of the IS environment.

The IS audit process is to evaluate the adequacy of internal controls with regard to both specific computer program and the data processing environment as a whole.

- (b) The audit objective and scope has a significant bearing on the skill and competence requirements of an IS auditor. The set of skills that is generally expected to be with an IS auditor include:

- Sound knowledge of business operations, practices and compliance requirements;
- Should possess the requisite professional technical qualification and certifications;
- A good understanding of information Risks and Controls;
- Knowledge of IT strategies, policy and procedural controls;
- Ability to understand technical and manual controls relating to business continuity; and
- Good knowledge of Professional Standards and Best Practices of IT controls and security.

Therefore, the audit process begins by defining the scope and objectives to adapt the standards and benchmarks for developing information model for collecting and evaluating evidence to execute the audit.

20. Various types of Application Controls are as follows:

- **Boundary Controls:** These establish interface between the user of the system and the system itself. The system must ensure that it has an authentic user. Users allowed using resources in restricted ways.
- **Input Controls:** These are responsible for bringing both the data and instructions into the information system. Input Controls are validation and error detection of data input into the system.
- **Communication Controls:** These are responsible for controls over physical components, communication line errors, flows, and links, topological controls, channel access controls, controls over subversive attacks, internetworking controls, communication architecture controls, audit trail controls, and existence controls.

- **Processing Controls:** These are responsible for computing, sorting, classifying and summarizing data. It maintains the chronology of events from the time data is received from input or communication systems to the time data is stored into the database or output as results.
- **Output Controls:** These are responsible to provide functions that determine the data content available to users, data format, timeliness of data and how data is prepared and routed to users.
- **Database Controls:** These are responsible to provide functions to define, create, modify, delete and read data in an information system. It maintains procedural dataset of rules to perform operations on the data to help a manager to take decisions.

The two types of audit trails that should exist in each subsystem are as follows:

- An **Accounting Audit Trail** to maintain a record of events within the subsystem; and
- An **Operations Audit Trail** to maintain a record of the resource consumption associated with each event in the subsystem.

21. Section 66F of IT Act, 2000 is applicable in this case.

[Section 66F] Punishment for cyber terrorism

(1) Whoever -

- (A) with intent to threaten the unity, integrity, security or sovereignty of India or to strike terror in the people or any section of the people by –
 - (i) denying or cause the denial of access to any person authorized to access computer resource; or
 - (ii) attempting to penetrate or access a computer resource without authorization or exceeding authorized access; or
 - (iii) introducing or causing to introduce any computer contaminant,and by means of such conduct causes or is likely to cause death or injuries to persons or damage to or destruction of property or disrupts or knowing that it is likely to cause damage or disruption of supplies or services essential to the life of the community or adversely affect the critical information infrastructure specified under section 70; or
- (B) knowingly or intentionally penetrates or accesses a computer resource without authorization or exceeding authorized access, and by means of such conduct obtains access to information, data or computer database that is restricted for reasons of the security of the State or foreign relations; or any restricted information, data or computer database, with reasons to believe that such information, data or computer database so obtained may be used to cause or

likely to cause injury to the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality, or in relation to contempt of court, defamation or incitement to an offence, or to the advantage of any foreign nation, group of individuals or otherwise,

commits the offence of cyber terrorism.

- (2) Whoever commits or conspires to commit cyber terrorism shall be punishable with imprisonment which may extend to imprisonment for life.

22. Mandatory audits of systems and processes bring transparency in the complex workings of SEBI, prove integrity of the transactions and build confidence among the stakeholders.

- (i) **Systems Audit:** SEBI had mandated that exchanges shall conduct an annual system audit by a reputed independent auditor.

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

(ii) **Audit Report Norms:** These are given as follows:

- The Systems Audit Reports and Compliance Status should be placed before the Governing Board of the Stock Exchanges/Depositories and the system audit report along with comments of Stock Exchanges / Depositories should be communicated to SEBI.
- The Audit report should have explicit coverage of each Major Area mentioned in the TOR, indicating any Nonconformity (NCs) or Observations (or lack of it). For each section, auditors should also provide qualitative input about ways to improve the process, based upon the best practices observed.

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

- **Network as a Service (NaaS):** NaaS, an instance of IaaS, provides users with needed data communication capacity to accommodate bursts in data traffic during data-intensive activities such as video conferencing or large file downloads. It is an ability given to the end-users to access virtual network services that are provided by the service provider over the Internet on a per-per-use basis. NaaS allows network architects to create virtual networks; virtual network interface cards (NICs), virtual routers, virtual switches, and other networking components. It further allows the network architect to deploy custom routing protocols and enables the design of efficient in-network services, such as data aggregation, stream processing, and caching. NaaS providers operate using three common service models: Virtual Private Network (VPN), Bandwidth on Demand (BoD) and Mobile Virtual Network (MVN).
- **Storage as a Service (STaaS):** STaaS, an instance of IaaS, provides storage infrastructure on a subscription basis to users who want a low-cost and convenient way to store data, synchronize data across multiple devices, manage off-site backups, mitigate risks of disaster recovery, and preserve records for the long-term. It is an ability given to the end users to store the data on the storage services provided by the service provider. STaaS allows the end users to access the files at any time from any place. STaaS provider provides the virtual storage that is abstracted from the physical storage of any cloud data center. STaaS is also a cloud business model that is delivered as a utility.
- **Database as a Service (DBaaS):** This is also related to IaaS and provides users with seamless mechanisms to create, store, and access databases at a host site on demand. It is an ability given to the end users to access the database service without the need to install and maintain it on the pay-per-use basis. The end users can access the database services through any Application Programming Interfaces (APIs) or Web User Interfaces provided by the service provider.
- **Backend as a Service (BaaS):** It is a type of IaaS, that provides web and mobile app developers a way to connect their applications to backend cloud storage with added services such as user management, push notifications, social network services

integration using custom software development kits and application programming interfaces.

- **Desktop as a Service (DTaaS):** It is an instance of IaaS that provides ability to the end users to use desktop virtualization without buying and managing their own infrastructure. DTaaS is a pay-per-use cloud service delivery model in which the service provider manages the back-end responsibilities of data storage, backup, security and upgrades. The end-users are responsible for securing for managing their own desktop images, applications, and security. These services are simple to deploy, are highly secure, and produce better experience on almost all devices.

24. Some issues in Mobile Computing are as follows:

- **Security Issues:** Wireless networks in Mobile computing have relatively more security requirements than wired network. These are as follows.
 - **Confidentiality:** Preventing unauthorized users from gaining access to critical information of any particular user.
 - **Integrity:** Ensures unauthorized modification, destruction or creation of information cannot take place.
 - **Availability:** Ensuring authorized users getting the access they require.
 - **Legitimate:** Ensuring that only authorized users have access to services.
 - **Accountability:** Ensuring that the users are held responsible for their security related activities by arranging the user and his/her activities are linked when necessary.
- **Bandwidth:** Bandwidth utilization can be improved by logging bulk operations against short requests and compression of data before transmission. The technique of caching frequently accessed data items can play an important role in reducing contention in narrow bandwidth wireless networks. The cached data can help improve query response time. Since mobile clients often disconnect to conserve battery power the cached data can support disconnected operations
- **Location Intelligence:** As the mobile computers move, they encounter networks with different features. A mobile computer must be able to switch from infrared mode to radio mode as it moves from indoors to outdoors. Additionally, it should be capable of switching from cellular mode of operation to satellite mode as the computer moves from urban and rural areas. As computers are working in cells and are being serviced by different network providers, the physical distance may not reflect the true network distance. A small movement may result in a much longer path if cell or network boundaries are crossed. It will also lead to updating of the location dependent information as described above. This can increase the network latency as well as risk of disconnection. Service connections must be dynamically transferred to the nearest server. However, when load balancing is a priority this may not be possible.

- **Power Consumption:** Mobile Computers will rely on their batteries as the primary power source. Batteries should be ideally as light as possible but at the same time they should be capable of longer operation times. Power consumption should be minimized to increase battery life. Chips can be redesigned to operate at lower voltages. Power management can also help. Individual components be powered down when they are idle.
- **Revising the technical architecture:** Mobile users are demanding and are important to the business world. To provide complete connectivity among users; the current communication technology must be revised to incorporate mobile connectivity. Additionally, application and data architectures must also be revised to support the demands put upon them by the mobile connectivity.
- **Reliability, coverage, capacity, and cost:** At present wireless network is less reliable, have less geographic coverage and reduced bandwidth, are slower, and cost more than the wired-line network services. It is important to find ways to use this new resource more efficiently by designing innovative applications.
- **Integration with legacy mainframe and emerging client/server applications:** Application development paradigms are changing. As a result of the IT industry's original focus on mainframes, a huge inventory of applications using communications interfaces that are basically incompatible with mobile connectivity have been accumulated. Still the application development trend is geared towards wired network.
- **End-to-end design and performance:** Since mobile computing involves multiple networks (including wired) and multiple application server platforms, end-to-end technical compatibility, server capacity design, and network response time estimates are difficult to achieve.
- **Business challenges:** In addition to these technical challenges, mobile computing also faces business challenges. This is due to the lack of trained professionals to bring the mobile technology to the general people and development of pilot projects for testing its capabilities.

PAPER 7: DIRECT TAX LAWS

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:

MODULE 1

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.

MODULE 2

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	The rate of tax (i.e., 25.168%) is

		<p>income derived from or incidental to manufacturing or production of an article or thing.</p> <p>[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]</p>	<p>notwithstanding anything contained in the Income-tax Act, 1961, but subject to the provisions of Chapter XII, other than section 115BA and 115BAB.</p>
	<p>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]</p>	<p>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.</p>	<p>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.</p>
	<p>Rate of tax on other income in respect of which no specific rate of tax is provided in Chapter XII</p>	<p>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).</p> <p>In respect of such income, no deduction or allowance in respect of any expenditure or allowance shall be allowed in computing such income.</p>	<p>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.</p>

	Rate of tax on STCG derived from transfer of a capital asset on which no depreciation is allowable under the Act	The applicable rate of tax is 25.168% (i.e., tax@22%, plus surcharge@10% plus HEC@4%). There is, however, no restriction regarding claiming of deduction or allowance in this regard.	The applicable rate of tax is 25.168% i.e., tax @22%, plus surcharge @10% plus cess@4%. There is no restriction regarding claiming of deduction or allowance in this regard.
(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	No similar condition has been prescribed

			circumstances and within the period specified therein)	
		(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</p>		

		<i>or production of article or thing using new plant and machinery.</i> <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	<p>In case of a company opting for either section 115BAA or 115BAB, the total income should be computed -</p> <p>(i) without providing for deduction under any of the following sections:</p> <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></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.
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
		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.
		(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]	
		(iii) by claiming depreciation u/s 32 determined in the prescribed manner. However, additional depreciation u/s 32(1)(ia) cannot be claimed.	
		<u>Note – Additional points relevant in the context of section 115BAA:</u>	
		(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]	
		(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>(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, 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)	Where total income (excluding income u/s 111A and 112A) exceeds ₹ 2 crore but does not exceed ₹ 5 crore The rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 111A and 112A	25% Not exceeding 15%	<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)	Where total income (excluding income u/s 111A and 112A) exceeds ₹ 5 crore Rate of surcharge on the income-tax payable on the portion of income chargeable to tax u/s 111A and 112A	37% Not exceeding 15%	<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 111A and 112A) exceeds ₹ 2 crore in cases not covered under (iii) & (iv) above	15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 55 lakhs; and • Other income ₹ 1.10 crore 	Surcharge would be levied@15% on income-tax computed on total income of ₹ 2.25 crore.

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 Other income ₹ 3 crores; 	Surcharge would be levied: @15% on income-tax leviable on capital gains of ₹ 1.20 crore referred to in section 115AD; and @25% on income-tax computed on other income of ₹ 3 crores 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%		

(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.

MODULE 3**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.
-------------------------	---

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).

MODULE 4

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 order of the Assessing	the date of the said order	<i>the date of the said order</i>

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 – 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)].</p> <p>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)].</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;
--	--

	<p>(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;</p> <p>(h) a detailed description of the transfer pricing policies of the international group related to research and development and intangible property;</p> <p>(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;</p> <p>(j) a detailed description of the financing arrangements of the international group, including the names and addresses of the top ten unrelated lenders;</p> <p>(k) a list of group entities that provide central financing functions, including their place of operation and of effective management;</p> <p>(l) a detailed description of the transfer pricing policies of the international group related to financing arrangements among group entities;</p> <p>(m) a copy of the annual consolidated financial statement of the international group; and</p> <p>(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.</p>
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> <p>(a) the international group has designated such entity for this purpose and</p> <p>(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.</p>
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>

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.
- ₹ 1,16,48,000
 - ₹ 1,39,77,600
 - ₹ 2,91,20,000
 - ₹ 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?
- 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.
 - 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.
 - 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
 - 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?
- No penalty is leviable under section 270A in the hands of either Mr. Ganesh or Mr. Rajesh
 - Yes; ₹ 36,400 and ₹ 5,200, respectively
 - Yes; ₹ 37,700 and ₹ 6,500, respectively
 - 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?
- Both M Ltd. and N Ltd. do not have to deduct tax at source on such interest
 - Both M Ltd. and N Ltd. have to deduct tax at source@5.2%
 - M Ltd. does not have to deduct tax at source but N Ltd. has to deduct tax at source@5.2%
 - 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

- II and III
 - I and IV
 - Only IV
 - 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 115BBB, 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>	Nil	
<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>		
<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	24,00,000
		5,96,50,000
<p>Less: Depreciation as per Income-tax Rules, 1962</p>		
<p>A(2) Depreciation under section 32</p>		
<p>Depreciation on factory building [10% of ₹ 360 lakh]</p>	36,00,000	

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.

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	
Add: Additional depreciation @10% on ₹ 63.50 lakh, since machinery is put to use for less than 180 days	<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
Add: Surcharge@7% (since the total income of the company exceeds ₹ 1 crore but does not exceed ₹ 10 crore)	8,50,653
	<u>1,30,02,841</u>
Add: Health and education cess@4%	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) [See Working Note 1]	2,42,00,000
Less: Total liability computed in accordance with the prescribed method of valuation [See Working Note 2]	<u>1,92,00,000</u>
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 [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]	34,00,000
- 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>	<u>58,000</u>
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:

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

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
---	-----------

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]	<u>Nil</u>
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]	<u>Nil</u>
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.

Relevant Finance Act/Notifications/Circulars etc. applicable for November, 2020 Examination – Final (Old) Examination

Paper 7 : Direct Tax Laws

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 for Final (New) Paper 7 is also relevant for November, 2020 Final (Old) Paper 7: Direct Tax Laws, with the exception of chapters 6 to 8 in Module 4 of the Study Material. Thus, all Chapters in Modules 1, 2 and 3 and Chapters 1 to 5 in Module 4 of the October 2019 edition of the Study Material of Final (New) Paper 7 is relevant for Final (Old) Paper 7 Direct Tax Laws also.

The Statutory Update for November, 2020 examination, containing the amendments made by the Taxation Laws (Amendment) Act, 2019 and circulars, notifications and 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.

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	(i) Rate of tax prescribed for supply of goods*

	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	(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 Rs 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.