

FINAL COURSE
GROUP – II

REVISION TEST PAPERS
MAY, 2024



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
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REVISION TEST PAPER, MAY, 2024 – 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.

The primary objectives of the RTP are:

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

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

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

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

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

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

II. Planning and preparing for examination

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

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

Examination tips

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

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

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

III. Subject-wise Applicability

PAPER - 4: DIRECT TAX LAWS AND INTERNATIONAL TAXATION

The provisions of direct tax laws, as amended by the Finance Act, 2023 and significant notifications, circulars issued and other legislative amendments made upto 31.10.2023, are relevant for May, 2024 examination. The relevant assessment year for May, 2024 examination is A.Y.2024-25.

The October, 2023 edition of the Study Material, comprising of four modules (Modules 1 to 4), is applicable for May, 2024 Examination.

The above referred study material has to be read along with Statutory Update for May, 2024 Examination webhosted at <https://resource.cdn.icai.org/77984bos62600su.pdf> at BoS Knowledge Portal, which contains the significant notifications/circulars issued upto 31.10.2023 but not covered in the October, 2023 edition of the Study Material, which are also relevant for May, 2024 Examination. The Judicial Update for May 2024 examination available at <https://resource.cdn.icai.org/77983bos62600ju.pdf> is also relevant and important for May, 2024 examination.

You have to read the October 2023 edition of the Study Material along with the Statutory Update and Judicial Update for May, 2024 examination thoroughly to attain conceptual clarity and understand the impact of amendments and interpretation of court rulings. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments made by the Finance Act, 2023 and latest notifications and circulars have been given in *italics/bold italics*. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Work out the exercise questions at the end of each chapter and then, compare your answers with the answers given to test your level of understanding. Thereafter, solve the MCQs and case scenarios based MCQs uploaded in MCQ Paper Practice Dashboard to assess your level of understanding and hone your analytical and problem-solving skills.

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

PAPER – 5: INDIRECT TAX LAWS

The subject of Indirect Tax Laws at the Final level is divided into two parts, namely, Part I: Goods and Services Tax for 80 marks and Part II: Customs & Foreign Trade Policy (FTP) for 20 marks. For this paper, the following are applicable for May 2024 examination:

- (i) The provisions of the CGST Act, 2017 and IGST Act, 2017 as amended by the Finance Act, 2023 including significant

notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2023.

- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance Act, 2023, including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2023.

Note - The amendments made by the Annual Union Finance Acts in the CGST Act, 2017, the IGST Act, 2017, the Customs Act, 1962 and the Customs Tariff Act, 1975 are made effective from the date notified subsequently. Only those amendments made by the relevant Finance Acts which have become effective till 31.10.2023 are applicable for May 2024 examination. Accordingly, those amendments made by the Finance Act, 2023 which have become effective till 31.10.2023 are applicable for May 2024 examination.

However, it may be noted that amendments made by the Finance Act, 2023 in sections 9, 9A and 9C of the Customs Tariff Act, 1975 and in section 65 of the Customs Act, 1962 and insertion of new section 65A in the Customs Act, 1962 have not become effective till 31.10.2023 and thus, are not applicable for May 2024 examination. Further, the amendments made by the Finance (No. 2) Act, 2019 in sections 2(4), 95, 102, 103, 104, 105 and 106 of the CGST Act, 2017 and the insertion of new sections 101A, 101B & 101C in the CGST Act, 2017, have not become effective till 31.10.2023 and thus, are not applicable for May 2024 examination.

Further, since the amendments made by the Central Goods and Services Tax (Amendment) Act, 2023 and Integrated Goods and Services Tax (Amendment) Act, 2023, (enacted as on 18.08.2023) have become effective from 01.10.2023, the same are also applicable for May 2024 examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of "Study Guidelines for May 2024 Examination". The same is given as part of "Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May 2024 - Final Examination" appended at the end of this Revision Test Paper.

Students may note that October 2023 Edition of the Study Material is applicable for Final Paper 5: Indirect Tax Laws. The Study Material has been divided into four modules for ease of handling by students. The first three modules are on GST and the fourth module is on Customs and FTP.

The subject matter of Part I: Goods and Services Tax of the Study Material on Indirect Tax Laws 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 30.04.2023.

The significant notifications and circulars issued between 01.05.2023 and 31.10.2023 in GST laws as well as the amendments made by the CGST Amendment Act, 2023 and IGST Amendment Act, 2023, are covered in the Statutory Update.

The content discussed in Part II: Customs & FTP is based on the customs law as amended by the Finance Act, 2023 and significant notifications and circulars issued till 30.04.2023.

The significant notifications/ circulars issued from 01.05.2023 and 31.10.2023 in Customs & FTP are covered in the Statutory Update.

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

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

PAPER – 6: INTEGRATED BUSINESS SOLUTIONS

In Integrated Business Solutions, one has to apply the knowledge and understanding of following five core subjects at the CA Final Level, along with Self-paced Online Modules Set A & B:

Paper 1 : Financial Reporting

Paper 2 : Advanced Financial Management

Paper 3 : Advanced Auditing, Assurance and Professional Ethics

Paper 4 : Direct Tax Laws & International Taxation

Paper 5 : Indirect Tax Laws

Self-Paced Online Modules

Set A : Corporate and Economic Laws

Set B : Strategic Cost & Performance Management

In this paper, since students are expected to integrate the knowledge acquired in different subjects in solving case studies, there is no separate study material. However, multi-disciplinary case studies are webhosted at the BoS Knowledge Portal, which will help them understand the manner of answering case study-based questions involving different subjects. In case students face difficulty in any subject, they can refer "Saransh" for different subjects, wherein the concepts and provisions are explained through diagrams, charts and tables to facilitate quick assimilation of the significant concepts and provisions dealt with in each subject.

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

This revision test paper includes two case studies covering the following topics:

Ind AS 115, Ind AS 20
SA 240, SA 540, SA 320

GST on Airport Levies
Risk in a Statutory Audit
Kano's Model; Porter's Five Forces; Balanced Scorecard
Section 92CE of the Income-tax Act, 1961
Regulation 17A of the SEBI (LODR) Regulations 2015
Provisions of the FCRA Act, 2010
Section 161 of the Companies Act 2013; Section 188 of the Companies Act, 2013 along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014

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



PAPER – 4: DIRECT TAX LAWS AND INTERNATIONAL TAXATION

The provisions of direct tax laws, as amended by the Finance Act, 2023 and the significant notifications and circulars issued upto 31.10.2023, are relevant for May, 2024 examination. The relevant assessment year is A.Y.2024-25. The October, 2023 edition of the Study Material contains the provisions of direct tax laws as amended by the Finance Act, 2023 and notifications and circulars issued upto 31.7.2023. The said study material has to be read along with the Statutory Update for May, 2024 Examination webhosted at <https://resource.cdn.icai.org/77984bos62600su.pdf> and Judicial Update for May, 2024 Examination webhosted at <https://resource.cdn.icai.org/77983bos62600ju.pdf>.



QUESTIONS

Case Scenario I

The following details pertain to Mr. Sahil and his best friend Mr. Akhil:

Mr. Sahil

Particulars	Amount (₹)
Amount remitted to his elder son Aarav, who is pursuing two-year MBA Program from Columbia University, USA	
- Out of own savings through HDFC Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) of the RBI	
• towards tuition fees on 5.7.2023	3,50,000
• to meet day to day expenses for study purposes	

- 10.5.2023	1,20,000
- 29.9.2023	90,000
- 01.1.2024	1,35,000
- Through Axis Bank, an authorized dealer under Liberalized Remittance Scheme (LRS) out of	
• loan (towards tuition fees) on	
- 11.10.2023	3,50,000
- 10.01.2024	3,50,000
• Own savings (to meet day to day expenses) on 1.7.2023	1,50,000
To complete the formalities of admission, Mr. Sahil visited the USA from 10.4.2023 to 13.4.2023 for which he purchased a tour package from M/s Gate 2 Travel, a foreign tour operator and remits money under LRS on 5.4.2023. International travel tickets and hotel accommodation are included in the said package.	5,20,000

Mr. Sahil has furnished undertakings containing the details of earlier remittances to HDFC bank and Axis bank. He has also furnished his PAN to the authorized dealers and to the seller of overseas tour program package.

Mr. Akhil

Mr. Akhil, an Indian citizen got a job offer from M/s Wellbeing Inc., a Dubai-based company of AED 10,500 per month. He left for Dubai on 29.3.2023 and joined M/s Wellbeing Inc. on 1st April 2023. He returned to India on 15.12.2023 on leaves for 15 days. On 23.12.2023, he went on 7 days tour to Bali with his wife and son. Thereafter, he directly went to Dubai with his wife and son. On 16.12.2023, he purchased a tour package for Bali from Make Your Trip, an Indian tour operator for which he paid ₹ 7,50,000 towards flight tickets and hotel accommodation. During F.Y. 2023-24, he has business income of ₹ 4,20,000 from a retail shop in India and interest on fixed deposit and savings account with Canara Bank of ₹ 1,20,000 and ₹ 8,000, respectively.

He is not liable to pay any tax in Dubai. Assume 1 AED = ₹ 23.

From the information given above, choose the most appropriate answer to Q. 1 to Q. 6:

1. Is HDFC Bank required to collect tax at source on the amount remitted by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 2,000 on 29.9.2023 and TCS of ₹ 27,000 on 1.1.2024
 - (b) Yes; TCS of ₹ 500 on 29.9.2023 and TCS of ₹ 27,000 on 1.1.2024
 - (c) Yes; TCS of ₹ 500 on 29.9.2023 and TCS of ₹ 6,750 on 1.1.2024
 - (d) No tax is required to be collected at source since receipts do not exceed ₹ 7 lakh
2. Is Axis Bank required to collect tax at source on the amount remitted by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 7,500 on 1.7.2023; TCS of ₹ 1,750 on 11.10.2023 and TCS of ₹ 1,750 on 10.1.2024
 - (b) Yes; TCS of ₹ 17,500 on 11.10.2023 and TCS of ₹ 17,500 on 10.1.2024
 - (c) Yes; TCS of ₹ 1,750 on 11.10.2023 and TCS of ₹ 1,750 on 10.1.2024
 - (d) No tax is required to be collected at source, on the remittances for education and for other purposes since each receipt does not exceed ₹ 7 lakh
3. Is tax required to be collected at source on the amount remitted for tour package to USA by Mr. Sahil? If so, what is the amount of tax to be collected?
 - (a) Yes; TCS of ₹ 26,000
 - (b) Yes; TCS of ₹ 1,04,000
 - (c) No tax is required to be collected at source, since tour package is purchased from a foreign tour operator
 - (d) No tax is required to be collected at source, since receipt does not exceed ₹ 7 lakh
4. Does Make Your Trip require to collect tax at source on the amount received for tour package to Bali from Mr. Akhil? If so, what is the amount of tax to be collected?
 - (a) Yes; ₹ 2,500 is required to be collected at source

- (b) Yes; ₹ 37,500 is required to be collected at source
 - (c) Yes; ₹ 45,000 is required to be collected at source
 - (d) No tax is required to be collected at source
5. What is the total income of Mr. Akhil for the A.Y. 2024-25? Assume he has shifted out of the default tax regime u/s 115BAC.
- (a) ₹ 33,88,000
 - (b) ₹ 5,48,000
 - (c) ₹ 33,96,000
 - (d) ₹ 5,40,000
6. What would be the amount of the tax liability (computed in the most beneficial manner) of Mr. Akhil for the A.Y. 2024-25?
- (a) ₹ 7,47,550
 - (b) ₹ 12,900
 - (c) Nil
 - (d) ₹ 12,480

Case Scenario II

Seva Niketan, a charitable trust registered under section 12AB runs an educational institution, which is engaged solely in education and a hospital for treatment of persons suffering from mental disorder solely for philanthropic purposes. The trust furnished the following information:

- (i) The total receipts of the trust for the P.Y. 2023-24 for educational institution is ₹ 3.10 crores and for the hospital it is ₹ 3.40 crores.
- (ii) Voluntary contributions [included in (i) above] received for the P.Y. 2023-24 from the public amounted to ₹ 105 lakhs. It includes corpus donations of ₹ 55 lakhs (for purchase of building for the trust) and anonymous donations of ₹ 20 lakhs.
- (iii) During the P.Y. 2023-24, computers purchased for ₹ 80 lakhs out of
 - Corpus fund mentioned in (ii) above ₹ 30 lakhs.

- Loan – ₹ 25 lakhs
 - Voluntary contributions - ₹ 25 lakhs
- (iv) Corpus donations received during the current year are invested in -
- Post Office Savings Accounts ₹ 10 lakhs
 - Canara Bank as Fixed deposits ₹ 5 lakhs
 - Non-banking Financial Corporation (NBFC) ₹ 10 lakhs
- (v) Deposited ₹ 15 lakhs towards post office savings account which were utilised for purchase of building during the P.Y. 2020-21 and P.Y. 2021-22 out of corpus fund ₹ 10 lakhs and ₹ 5 lakhs, respectively.
- (vi) Amount paid to another trust registered u/s 12AB by way of donation of ₹ 10 lakhs. Out of the said amount ₹ 2 lakhs are given as corpus donations.
- (vii) ₹ 6 lakhs, being the amount set apart in the P.Y.2022-23 by the trust for charitable purposes u/s 11(2) utilized in the P.Y. 2023-24 for making donation to another charitable trust, whose object is also education.

From the information given above, choose the most appropriate answer to Q. 7 to Q. 11:

7. Seva Niketan wants to avail exemption under section 10(23C)(iiiad) and 10(23C)(iii ae) in respect of educational institution and hospital for the P.Y. 2023-24. Can it do so?
- (a) Yes, it can do so since annual receipts for each activity do not exceed ₹ 5 crores.
 - (b) No, it cannot do so since the trust is registered under section 12AB.
 - (c) No, it cannot do so since aggregate receipts from education and hospital exceed ₹ 5 crores.
 - (d) No, it cannot do so due to the reasons mentioned in (b) and (c) above.
8. What amount of corpus donations received by the trust would not form part of the total income of the P.Y. 2023-24?

- (a) ₹ 25 lakhs
 - (b) ₹ 40 lakhs
 - (c) ₹ 15 lakhs
 - (d) ₹ 55 lakhs
9. What would be the amount of "specified income" taxable@30% u/s 115BBI for the P.Y. 2023-24?
- (a) ₹ 30 lakhs
 - (b) ₹ 46 lakhs
 - (c) ₹ 48 lakhs
 - (d) ₹ 16 lakhs
10. What amount would be considered as application of the trust for the P.Y.2023-24 (excluding unconditional accumulation of 15%), assuming that it has fulfilled the relevant conditions stipulated under section 12A?
- (a) ₹ 36.8 lakhs
 - (b) ₹ 25 lakhs
 - (c) ₹ 38 lakhs
 - (d) ₹ 30 lakhs
11. Seva Niketan claims that anonymous donations received during F.Y. 2023-24 are not liable to be taxed under section 115BBC(1)(i). Is the claim of trust valid? If not, determine the tax leviable under section 115BBC.
- (a) No; ₹ 6,00,000
 - (b) No; ₹ 5,70,000
 - (c) Yes; the trust is not liable to pay tax under section 115BBC(1)(i)
 - (d) No; ₹ 4,42,500
12. ABC bank provides the following information relating to cash withdrawals by its two customers during the P.Y.2023-24:

Date of cash withdrawal	Mr. Arjun (Savings Account) (₹)	XYZ Co-operative Society (Current Account) (₹)
12.04.2023	20,00,000	-
9.05.2023	-	68,00,000
15.06.2023	25,00,000	-
19.07.2023	-	85,00,000
18.10.2023	35,00,000	-
5.11.2023	-	88,00,000
22.12.2023	25,00,000	-
03.01.2024	-	57,00,000

Co-operative society regularly files its return of income. However, Mr. Arjun has not filed his return of income for the last three years.

Would cash withdrawals by Mr. Arjun and XYZ Co-operative society during the P.Y. 2023-24 attract deduction of tax at source? If yes, how much tax would be deductible by ABC bank.

- (a) Yes; ₹ 1,85,000 and ₹ 3,96,000, respectively
 - (b) Yes; ₹ 1,85,000 and ₹ 5,56,000, respectively
 - (c) Yes; ₹ 10,000 and ₹ 3,96,000, respectively
 - (d) ₹ 1,85,000 in respect of cash withdrawals by Mr. Arjun and no tax is required to be deducted from cash withdrawals by the co-operative society.
13. Blossom Tea Garden, a tea estate in Dibrugarh, Assam received ₹ 23,00,000 as compensation from an insurance company for severe damage to the green leaves due to a hailstorm in July 2023. Blossom tea estate is of the view that the entire receipt under the insurance policy for damage caused by the hailstorm to tea leaves will be agricultural income, hence, would not be chargeable to tax. Examine the contention of Blossom Tea Garden.
- (a) Blossom Tea Garden's contention is incorrect; entire compensation is assessable as income from other sources.

- (b) Blossom Tea Garden's contention is incorrect; entire compensation is assessable as manufacturing income.
 - (c) Blossom Tea Garden's contention is incorrect; it's deemed to be profit on sale of standing crop or the produce, therefore the same is taxable as profits and gains from business or profession.
 - (d) Blossom Tea Garden's contention is correct; no part of the compensation consists of manufacturing income, and it cannot be apportioned under rule 8 between manufacturing income and agricultural income. Therefore, the income will be agricultural income.
14. Shubh Fragrance Ltd. established in 2015, is engaged in the manufacturing and selling of pharmaceutical products. The net profit of the company as per profit and loss account for the year ended 31st March 2024 is ₹ 900 lakhs, after debiting or crediting the following items:
- (i) Payment of ₹ 50 lakhs in the month of November 2023 to a foreign company for obtaining know-how for a product launched in the month of December 2023.
 - (ii) Electricity charges of ₹ 7 lakhs for the month of March 2024 were unpaid up to the due date of filing of return of income.
 - (iii) Loss of ₹ 4 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
 - (iv) Depreciation charged to the Statement of Profit and Loss was ₹ 45 lakhs.
 - (v) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 65 lakhs, which was installed in the month of December 2023.
 - (vi) ₹ 20 lakhs received from Z Ltd. under an agreement in the form of non-compete fees for not carrying out any business in a particular product.

(vii) Advance received amounting to ₹ 20 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 lakhs on time, as per terms of agreement. The land was purchased during F.Y. 2019-20.

(viii) Excess on sale of unlisted shares - ₹ 15 lakhs (Sold on 15th February 2024).

Additional Information:

- (1) Normal depreciation allowable as per the Income-tax Act, 1961 ₹ 35 lakhs [depreciation, if any required to be computed on the amount debited or credited to Statement of profit or loss is not included].
- (2) The unlisted shares were acquired on 29.3.2021 for ₹ 80 lakhs.
- (3) Cost Inflation Index F.Y. 2019-20 - 289, F.Y. 2020-21 - 301, F.Y. 2023-24 - 348.

The total turnover of the company for previous year 2021-22 was ₹ 282 crores and for the financial year 2022-23 ₹ 405 crores. The company has MAT credit of ₹ 20 lakhs of the assessment year 2016-17. The book profit (computed) for the assessment year 2024-25 is ₹ 1520 lakhs.

Compute the total income and tax liability (computed in the most beneficial manner) for the assessment year 2024-25.

15. Mr. Sanjay is a resident in India aged 55 years. He had an impressive investment portfolio in various mutual funds. He redeemed his entire mutual fund investment portfolio and bought a villa in Lonavala for ₹ 2.00 crores to spend rest of his life there. The details of mutual funds are as under –

S. No.	Type of mutual fund	Date of investment	Date of redemption	Amount invested (in ₹ lakhs)	Amount redeemed (in ₹ lakhs)
1	BLR growth fund	03.04.2020	05.06.2023	120	140
2	ABC Strategic fund	04.05.2023	02.02.2024	46	50

3	ABD fund	Midcap	02.12.2022	05.07.2023	115	118
4	SBA fund	Growth	08.11.2021	12.12.2023	110	120

The funds stated at 1 and 2 have invested 30% of their proceeds in equity shares of domestic companies and funds stated at 3 and 4 have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds remained unchanged over all the years. STT is paid at the time of acquisition and redemption of mutual fund, wherever applicable.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Sanjay for A.Y. 2024-25. CII: 2020-21: 301; 2021-22: 317; 2022-23: 331; 2023-24: 348

16. The Commissioner of Income-tax issued notice to revise the order passed by an Assessing Officer under section 143. During the pendency of proceedings before the Commissioner, on the basis of material gathered during survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice. Examine whether the action of the Commissioner is justified as to the second notice.
17. In respect of Mr. Naksh, who is engaged in the export of fabrics, information is flagged as per the risk management strategy formulated by the CBDT for A.Y.2020-21, A.Y.2021-22, A.Y.2022-23 and A.Y.2023-24.

In case of Mr. Ramesh (friend of Mr. Naksh), who is engaged in trading of commodities, a search was initiated u/s 132 in April 2024, consequent to which the Assessing Officer has in his possession certain documents showing information pertaining to shares of value ₹ 28 lakhs purchased in the P.Y. 2017-18 and shares of value of ₹ 21 lakhs purchased in the P.Y.2018-19.

Can the Assessing Officer issue notice under section 148 to Mr. Naksh and Mr. Ramesh in April 2024? If so, in respect of which assessment years can notice be issued? Is it necessary that they be provided with an opportunity of being heard before issuance of notice?

What would be your answer with respect to issue of notice to Mr. Ramesh if the shares purchased in the P.Y.2017-18 were of ₹ 30 lakhs instead of ₹ 28 lakhs, all other facts remain the same?

18. Mr. Rohit, an Indian citizen, returned to India in March 2013 to assume the role of CEO at ABC (P) Ltd., an Indian company. He served in this capacity from 1st April 2013 to 31st March 2020. Prior to this, from May 2000 to February 2013 he was working with Red Inc, in the USA. In April 2020, he went to the USA to rejoin Red Inc. and permanently settled there. Mr. Rohit visits India every year only for 1 month during his stay in USA. It was found that when he was CEO of ABC (P) Ltd., he accumulated undisclosed income/wealth such as

- (i) shares of listed companies in USA acquired on 10th December, 2012;
- (ii) acquired one apartment in London on 20th April 2015 and
- (iii) established a leather goods manufacturing factory in Malaysia on 15th April 2020.

He also earned income by taking commission from various foreign buyers located outside India during the period between April 2013 to March 2020. The above undisclosed assets came to the notice of Assessing Officer in April 2023, and he issued notice under the Black Money Act, 2015 in July, 2023.

Is the notice issued by the Assessing Officer under the Black Money Act, 2015 on Mr. Rohit tenable in law?

19. Mahesh (Age 50 years) is the CEO of Silver India Ltd. since 01.04.2019. His income in India consists of
- (i) salary (before standard deduction) of ₹ 23 lakhs;
 - (ii) interest in respect of self-occupied property of ₹ 1,80,000;
 - (iii) interest on bank fixed deposits ₹ 1,60,000.

He has the following income for the year ended 31st March 2024 in Country 'A'.

- (i) Income from business in Country A = USD 25,000;

- (ii) Rent from house property in Country A = USD 4,500;
- (iii) Municipal taxes in respect of the above house (Not allowed as deduction in Country A) = USD 450;
- (iv) Dividend from shares held in Country 'A' where dividend was declared and paid in March, 2024 = USD 10,000;
- (v) Short term capital gain of USD 5,000 on sale of shares of companies registered in Country 'A' and sale proceeds were credited in bank account outside India on 28.03.2024.

India has DTAA with Country 'A' and the tax paid in Country 'A' is eligible for tax credit in India. The fiscal year for income-tax is the same both in India and Country 'A'. Rate of tax is 20% in Country 'A' in respect of all incomes. Income-tax was paid by Mahesh on 25.05.2024 for the incomes of the year ended 31st March 2024 in Country 'A'.

Compute the total income and net tax liability of Mahesh for the A.Y. 2024-25. Assume Mahesh pays tax under section 115BAC.

The TT buying rate of 1 USD on various dates: 29.02.2024 = ₹ 70; 28.03.2024 = ₹ 70.50; 31.03.2024 = ₹ 71; 30.04.2024 = ₹ 72; and 25.05.2024 = ₹ 73.

20. ABC (P) Ltd., Bangalore is engaged in the manufacture of electronic goods and exporting the same to various associated and other enterprises across Southeast Asia. The report with respect to its international transactions with AE has been furnished for all years. The company has applied for APA in respect of the transactions with its AE. Application was filed on 15th February 2023 which was signed on 5th May 2023.

The company also applied in respect of the international transactions to which APA applies for rollback benefit which was agreed and signed in January 2024. The details of the status of income tax assessments are as follows:

- A.Y. 2018-19 – The matter is pending before High Court with regard to acquisition of a company by the assessee and the dispute is about set off of loss of the erstwhile company.
- A.Y. 2019-20 and A.Y. 2020-21 - There is no dispute and the assessments have been completed.

- A.Y. 2021-22 - The assessment for the A.Y. 2021-22 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 500 lakhs.
- A.Y. 2022-23 - ALP of international transaction was disputed before the tribunal which set aside the order for fresh consideration by the Assessing Officer in November 2023.
- A.Y. 2023-24 - The income tax return ('ITR') was filed on 29th December 2023.

If the APA is applied, the ALP determined for the A.Y. 2021-22 would get enhanced by ₹ 300 lakhs as against ₹ 500 lakhs originally determined by TPO.

Discuss the applicability of rollback agreement for various assessment years in case of ABC (P) Ltd.


SUGGESTED ANSWERS/HINTS

MCQ No.	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(c)	8.	(c)
2.	(c)	9.	(b)
3.	(a)	10.	(a)
4.	(d)	11.	(d)
5.	(d)	12.	(d)
6.	(b)	13.	(d)
7.	(c)		

14. Computation of total income and tax liability of Shubh Fragrance Ltd. for A.Y.2024-25 under the regular provisions of the Act

	Particulars	Amount (in ₹)	
I	Profits and gains of business and profession		
	Net profit as per Statement of profit and loss		9,00,00,000
	Add: Items debited but to be considered separately or to be disallowed		
	(i) Payment towards know-how for a product	50,00,000	
	[Payment towards obtaining know-how is capital expenditure i.e., an intangible asset and eligible for depreciation. Since the same is debited in statement of profit and loss, it has to be added back]		
	(ii) Electricity charges unpaid upto the due of filing return of income	-	
	[Electricity charges are not included within the scope of section 43B ¹ , therefore no disallowance would be attracted. Since the same is already debited in statement of profit and loss, no further adjustment is required]		
	(iii) Loss due to hedging contract in respect of raw material	-	
	[Loss due to hedging contract against future price fluctuations in respect of import of raw material is		

¹ CIT Vs Andhra Ferro Alloys (P.) Ltd. (AP)

not deemed to be speculative transaction. Hence, the same is allowable as deduction while computing income from manufacturing. Since the same is already debited in statement of profit and loss, no further adjustment is required]		
(iv) Depreciation as per books of account	45,00,000	
(v) Loss from hedging contract in respect of imported machinery from Japan [Loss from hedging contracts entered for mitigating loss arising due to fluctuation in foreign currency payment towards import of machinery has to added to the actual cost of the machinery as per section 43A. Since the same is wrongly debited to statement of profit and loss, same has to be added back].	2,00,000	
		97,00,000
		9,97,00,000
Less: Items credited but chargeable to tax under other head		
(vi) Non-compete fees for not carrying out any business in a particular product [Non-compete fees for not carrying out any business in a particular product would be chargeable to tax as business	-	

income under section 28(va). Since the same is already credited in statement of profit and loss, no further adjustment is required]		
(vii) Advance forfeited in respect of sale of land	20,00,000	
[With effect from A.Y. 2015-16, advance forfeited in respect of sale of land due to non-receipt of balance amount of consideration taxable under the head "Income from other sources". Since the same has been credited to the statement of profit and loss, the same has to be deducted while computing business income]		
(viii) Profit on sale of unlisted shares	15,00,000	
[Profit on sale of unlisted shares is taxable under the head "Capital Gains". Since profits has been credited to the statement of profit and loss, the same has to be deducted while computing business income]		35,00,000
		9,62,00,000
Less: Depreciation as per Income-tax Act, 1961 [other than on imported plant & machinery and know-how]	35,00,000	
Deprecation on:		
Plant & Machinery imported	65,00,000	
Add: Loss on hedging contract	<u>2,00,000</u>	
	<u>67,00,000</u>	

	<ul style="list-style-type: none"> Normal depreciation @7.5% of ₹ 67,00,000 [only 50% of the 15% is allowable since machinery is put to use for less than 180 days] Additional depreciation @10% of ₹ 67,00,000 [only 50% of the 15% is allowable since machinery is put to use for less than 180 days] 	5,02,500	
	Know-how @ 12.5% of ₹ 50,00,000 [50% of 25% since know how was obtained in the month of November 2023]	6,70,000	
		6,25,000	52,97,500
II	Capital Gains		9,09,02,500
	Long term capital gain on sale of unlisted shares [Since shares were held for more than 24 months]		
	Full value of consideration [₹ 15,00,000 + ₹ 80,00,000]	95,00,000	
	Less: Indexed cost of acquisition [80,00,000 x 348/301]	<u>92,49,169</u>	2,50,831
III	Income from Other Sources		
	Advance forfeited on sale of land		20,00,000
	Total income/Gross Total Income		<u>9,31,53,331</u>
	Total income/Gross Total Income (rounded off)		9,31,53,330
	Computation of tax liability under the regular provisions of the Act		
	Tax on ₹ 2,50,831@20% under section 112	50,166	

Tax on ₹ 9,29,02,500@25% [Since the turnover of the company for the previous year 2021-22 does not exceed ₹ 400 crore]	<u>2,32,25,625</u>	2,32,75,791
Add: Surcharge @ 7%, since the total income of the company > ₹ 1 crore but ≤ ₹ 10 crores		16,29,305
		<u>2,49,05,096</u>
Add: Health and education cess @ 4%		9,96,204
Tax liability		2,59,01,300

**Computation of tax liability of Shubh Fragrance Ltd. for the
A.Y. 2024-25 under section 115JB**

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 15,20,00,000	2,28,00,000
Add: Surcharge@12%, since the book profit of the company > ₹ 10 crores	<u>27,36,000</u>
	2,55,36,000
Add: Health and Education cess@4%	<u>10,21,440</u>
Tax liability under section 115JB	2,65,57,440

Since the regular income-tax payable is less than the minimum alternate tax payable, the book profit of ₹ 1520 lakhs shall be deemed to be the total income and tax is leviable @15% thereof *plus* surcharge@12% and cess@4%. Therefore, the tax liability is ₹ 2,65,57,440.

MAT Credit to be carried forward	
Tax liability under section 115JB	2,65,57,440
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	<u>2,59,01,300</u>
Amount of Credit (115JAA)	<u>6,56,140</u>
MAT credit of ₹ 20,00,000 of A.Y. 2016-17 is allowed to be carried forward till A.Y. 2031-32 and MAT credit of ₹ 6,56,140 relating to A.Y. 2024-25 is allowed to be carried forward till A.Y. 2039-40.	

Note - Shubh Fragrance Ltd. is eligible for concessional rate under section 115BAA @25.168% i.e., tax@22% *plus* surcharge@10% *plus*

HEC@4% subject to tax at the rates mentioned in the said sections in Chapter XII. In case Shubh Fragrance Ltd. opted for concessional rate of tax u/s 115BAA, it would not be eligible for additional depreciation on plant and machinery. In that case, its total income u/s 115BAA would be-

Particulars	₹
Total income/Gross Total Income under regular provisions of the Act	9,31,53,330
Add: Additional depreciation on plant & machinery	<u>6,70,000</u>
Gross Total Income/ Total Income	<u>9,38,23,330</u>
Tax on ₹ 2,50,831@20% under section 112	50,166
Tax on ₹ 9,35,72,499 @22% under section 115BAA	<u>2,05,85,950</u>
Add: Surcharge @ 10%	<u>20,63,612</u>
	2,26,99,728
Add: Health and education cess @ 4%	<u>9,07,989</u>
Tax liability	<u>2,36,07,717</u>
Tax liability (Rounded Off)	2,36,07,720
Suggestion to Shubh Fragrance Ltd	
In case Shubh Fragrance Ltd opts for section 115BAA for assessment year 2024-25, it would not be eligible for balance 10% additional depreciation on plant & machinery in A.Y. 2025-26 and would also lose MAT credit of ₹ 20 lakhs. Further, once option under section 115BAA has been exercised for any P.Y., it cannot subsequently be withdrawn for the same or any other P.Y. However, in such a case its tax liability for A.Y. 2024-25 would be ₹ 2,36,07,720 which would be lower than tax liability under regular provisions of the Act including MAT.	

15. Computation of capital gains of Mr. Sanjay for A.Y. 2024-25

Particulars	₹	₹
Redemption of BLR growth fund		
Full value of consideration [Redemption value]	1,40,00,000	

Less: Indexed cost of acquisition [₹ 1,20,00,000 × 348/301]	<u>1,38,73,754</u>	
Long term capital gains [Since it is debt fund (as not more than 65% of the proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 36 months immediately preceding the date of its transfer]		1,26,246
Redemption of ABC Strategic fund		
Full value of consideration [Redemption value]	50,00,000	
Less: Cost of acquisition	<u>46,00,000</u>	
Short term capital gains [Since it is a specified mutual fund (as not more than 35% of its proceeds are invested in equity shares of domestic companies) which is acquired on or after 1.4.2023, this fund would be considered as short-term capital asset as per section 50AA irrespective of the period of holding]		4,00,000
Redemption of ABD Midcap fund		
Full value of consideration [Redemption value]	1,18,00,000	
Less: Cost of acquisition	<u>1,15,00,000</u>	
Short term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for not more than 12 months immediately preceding the date of its transfer]		3,00,000
Redemption of SBA Growth fund		
Full value of consideration [Redemption value]	1,20,00,000	

Less: Cost of acquisition [Indexation benefit would not be available in case of income taxable under section 112A]	<u>1,10,00,000</u>	
Long term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 12 months immediately preceding the date of its transfer]		10,00,000
		18,26,246
Less: Exemption under section 54F Capital gain arising on transfer of a long-term capital asset other than a residential house shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of long-term capital gains from redemption of BLR growth fund and SBA Growth fund.		
Exemption from long term capital gains from redemption of SBA Growth fund [10,00,000 x 1,20,00,000 /1,20,00,000]		10,00,000
Exemption from long term capital gains from redemption of BLR short term fund [1,26,246 x 80,00,000 (2 crores – 1.20 crores)/1,40,00,000]		72,141
Capital gains chargeable to tax for A.Y.2024-25		7,54,105

16. The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of *Explanation 1* to section 263(1). According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the *Explanation 1* to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner,

Issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in *Explanation 1(b)* to section 263(1).

17. In respect of Mr. Naksh, the Assessing Officer has information suggesting that income has escaped assessment for the purposes of section 148 and 148A, since information has been flagged for the relevant assessment year as per risk management policy formulated by the CBDT. Notice can be issued for A.Y.2023-24, A.Y.2022-23 and A.Y.2021-22, since the three-year time limit from the end of the relevant assessment year has not expired as on April, 2024. Such notice can be issued after conducting an enquiry, if required, with respect to the information suggesting escapement of income; and providing an opportunity of being heard to Mr. Naksh by serving a show cause notice. Thereafter, on the basis of material available on record including the reply of Mr. Naksh, in response to show cause notice, the Assessing Officer has to decide whether or not it is a fit case to issue notice under

section 148 by passing an order, with the prior approval of Principal Commissioner or Principal Director or Commissioner or Director.

However, notice cannot be issued in respect of A.Y.2020-21, since the three-year time limit from the end of the relevant assessment year (i.e., from 31.3.2021) has since expired on 31st March, 2024.

In case of Mr. Ramesh, since search was conducted under section 132 in April 2024, the Assessing Officer is deemed to have information suggesting that income chargeable to tax has escaped assessment. In this case, the Assessing Officer has in his possession certain documents which reveal that income chargeable to tax, represented in the form of an asset, has escaped assessment. Shares are included in the definition of "asset". However, the income chargeable to tax, represented in the form of shares, which has escaped assessment amounts to ₹ 49 lakhs (i.e., ₹ 28 lakhs + ₹ 21 lakhs). Since the amount is lower than ₹ 50 lakhs, notice cannot be issued beyond 3 years from the end of the relevant assessment year. In this case, the relevant assessment years are A.Y.2018-19 (relevant to P.Y.2017-18) and A.Y.2019-20 (relevant to P.Y.2018-19). The three-year period for A.Y.2018-19 and A.Y.2019-20 expired on 31.3.2022 and 31.3.2023, respectively. Accordingly, notice cannot be issued under section 148 in April 2024.

However, where the income chargeable to tax, represented in the form of shares, which has escaped assessment amounts to ₹ 51 lakhs (i.e., ₹ 30 lakhs + ₹ 21 lakhs), an extended period of 10 years from the end of the relevant assessment year (i.e., from the end of 31.3.2019 and 31.3.2020) would be available under section 149(1)(b) for issue of notice, which has not expired in April, 2024. Therefore, the Assessing Officer can issue notice under section 148 for A.Y.2018-19 and A.Y.2019-20 with the prior approval of specified authority.

In this case, the Assessing Officer need not conduct an enquiry and provide opportunity of being heard to Mr. Ramesh as required u/s 148A for the purpose of issue of notice u/s 148.

Note - Notice cannot be issued under section 148 in respect of the relevant assessment year beginning on or before 1.4.2021, if on the date of issue of such notice, the time limit prescribed for issue of notice under

erstwhile section 153A has expired. In case of Mr. Ramesh, where income represented in the form of assets, being shares, which has escaped assessment amounts to ₹ 50 lakhs or more, the time limit for issue of notice under erstwhile section 153A in case of relevant assessment year beginning on or before 1.4.2021, has also not expired in April 2024. Since search had taken place in the P.Y.2024-25 relevant to A.Y.2025-26, the Assessing Officer could have issued notice for ten assessment years immediately preceding A.Y.2025-26 (i.e., from A.Y.2015-16 to A.Y.2024-25) under the erstwhile section 153A.

18. Validity of notice issued under Black Money Act, 2015

Every assessee would be liable to tax@30% in respect of his undisclosed foreign income and asset of the previous year. Undisclosed foreign asset would be liable to tax in the previous year in which such asset comes to the notice of the Assessing Officer.

Section 2(2) of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 defines "assessee" to include a person being -

- (a) a resident in India within the meaning of section 6 of the Income-tax Act, 1961 in the previous year; or
- (b) a non-resident or not ordinarily resident in India within the meaning of section 6(6) of the Income-tax Act, 1961 in the previous year but who was resident in India either in the previous year to which the income referred to in section 4 relates; or in the previous year in which the undisclosed asset located outside India was acquired.

Mr. Rohit **is non-resident for the P.Y. 2023-24** (the previous year in which notice is issued by the Assessing Officer), since he returned to the USA in April 2020 and visited every year only for 1 month. He was also a non-resident for the P.Y. 2012-13, when he acquired shares of listed companies in USA and P.Y. 2020-21, when he established a leather goods manufacturing factory in Malaysia, since he was in India only during the previous years from P.Y. 2013-14 to P.Y. 2019-20. However, he was resident in India in the P.Y. 2015-16, when he acquired one apartment in London.

Accordingly, the issue of notice on Mr. Rohit under section 10 of the Black Money Act, 2015, is tenable in law, in respect of apartment in London since he was resident in the previous year 2015-16 when the property was acquired.

However, notice issued in respect of shares of listed companies in USA acquired in the P.Y.2012-13 and leather goods manufacturing factory established in Malaysia in the P.Y.2020-21 is not tenable in law, since Mr. Rohit was non-resident in the previous years in which undisclosed assets were acquired and also in the previous year in which it comes to the notice of Assessing Officer.

As regards commission earned from various foreign buyers located outside India, notice can be issued to the extent the same relates to P.Y.2015-16 to P.Y.2019-20. Undisclosed foreign income relating to the period prior to P.Y.2015-16 does not fall within the scope of Black Money Law, which is effective only from A.Y.2016-17.

19. Computation of total income of Mahesh for A.Y. 2024-25 as per section 115BAC

Since Mr. Mahesh is a resident in India for the P.Y.2023-24, his global income would be subject to tax in India. Therefore, income earned by him in Country A would be taxable in India.

Particulars	Amount (₹)	Amount (₹)
Salaries		
Salary from Silver Ltd.	23,00,000	
Less: Standard deduction u/s 16(ia)	<u>50,000</u>	22,50,000
Income from house property		
Let out property in Country A		
Gross Annual Value ²	USD 4,500	
Less: Municipal taxes	<u>USD 450</u>	

² Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

Net Annual Value	USD 4,050	
Less: Deduction under section 24 – 30% of NAV	<u>USD 1,215</u>	
	USD 2,835	
[\$ 2,835 x 71, being the last day of previous year i.e., 31.3.2024 as per Rule 115]	2,01,285	
Self-occupied property in India		
Loss from self-occupied property [Interest u/s 24(b) is not allowable in respect of self-occupied property under section 115BAC]	<u>-</u>	2,01,285
Profits and gains from business or profession		
Income from business in Country A [\$ 25,000 x 71, being the last day of previous year i.e., 31.3.2024 as per Rule 115]		17,75,000
Capital Gains		
Short term capital gains on sale of shares of companies registered in Country A [\$ 5,000 x 70, being the last day of the month immediately preceding the month in which the shares are transferred i.e., 29.2.2024 as per Rule 115]		3,50,000
Income from Other Sources		
Interest on bank fixed deposits	1,60,000	
Dividend from shares held in Country A [\$ 10,000 x 70, being the last day of the month immediately preceding the month in which the dividend is declared i.e., 29.2.2024 as per Rule 115]	<u>7,00,000</u>	
		<u>8,60,000</u>
Gross Total Income/Total Income		<u>54,36,285</u>
Total Income (Rounded off)		54,36,290

Computation of Net tax liability of Mahesh for A.Y.2024-25

Particulars		Amount
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 6,00,000 [i.e., ₹ 3,00,000 @5%]	15,000	
₹ 6,00,001– ₹ 9,00,000 [i.e., ₹ 3,00,000 @10%]	30,000	
₹ 9,00,001– ₹ 12,00,000 [i.e., ₹ 3,00,000 @15%]	45,000	
₹ 12,00,001– ₹ 15,00,000 [i.e., ₹ 3,00,000 @ 20%]	60,000	
₹ 15,00,001– ₹ 54,36,290 [i.e., ₹ 39,36,290 @ 30%]	<u>11,80,887</u>	
		13,30,887
Add: Surcharge@10% [Since total income exceed ₹ 50 lakhs but does not exceed ₹ 1 crore)		<u>1,33,089</u>
		14,63,976
Add: Health & Education Cess@4%		<u>58,559</u>
		15,22,535
Less: Foreign tax credit, being lower of -		
- Tax payable in India @28.007% on ₹ 30,26,285, being income from house property of ₹ 2,01,285, business income of ₹ 17,75,000 <i>plus</i> capital gains of ₹ 3,50,000 <i>plus</i> dividend income of ₹ 7,00,000 [i.e., ₹ 15,22,535/ ₹ 54,36,290 x 100] = 28.007%	8,47,572	
- Tax paid in Country A@20% [\$ 44,500 @20% x ₹ 72, being the rate on 30.4.2024, being the last day of the month immediately preceding the month in which tax is paid, i.e., May 2024]	6,40,800	
		<u>6,40,800</u>
Net tax liability		<u>8,81,735</u>
Net tax liability (Rounded off)		8,81,740

- 20.** Rollback year means any previous year, falling within the period not exceeding four previous years, preceding the first of the five consecutive previous years for which advance pricing agreement is valid.

The application for advance pricing agreement may be filed at any time before the first day of the previous year relevant to the first assessment year for which the application is made, in respect of transactions which are of a continuing nature from dealings that are already occurring; or before undertaking the transaction in respect of remaining transactions.

In the present case, since ABC (P) Ltd. has made an application of APA and also opted for rollback provisions, the APA is apparently in respect of international transactions which are of continuing nature. Accordingly, the APA application filed on 15th February 2023 would be in respect of five previous years beginning with P.Y. 2023-24 relevant to the A.Y. 2024-25.

Consequently, APA entered by ABC (P) Ltd. can provide for determining ALP in relation to international transaction entered during rollback years i.e., from A.Y. 2020-21 to A.Y. 2023-24 subject to satisfaction of certain conditions.

In the present case, since A.Y. 2018-19 and A.Y. 2019-20 fall beyond the said four year period, ABC (P) Ltd. cannot avail roll back benefit in respect of these years. From A.Y. 2020-21 -A.Y. 2023-24, the applicability of rollback provisions would be as follows:

Rollback year	Applicability of rollback provisions
A.Y. 2020-21	Yes, rollback provisions are applicable for A.Y. 2020-21.
A.Y. 2021-22	Yes, rollback provisions are applicable for A.Y. 2021-22 even if ALP adjustment was reduced to addition of ₹ 300 lakhs as against addition of ₹ 500 lakhs originally determined by the TPO on account of APA, since such reduction in the amount of ALP adjustment does not result in reducing the total

	income or increasing the total loss, as declared in the return of income of the said year by ABC (P) Ltd.
A.Y. 2022-23	Yes, roll back provisions are applicable for A.Y. 2022-23, since ITAT has only set aside the order for fresh consideration and the matter has not reached finality.
A.Y. 2023-24	No, rollback provisions are not applicable for A.Y. 2023-24, since the return was filed belatedly u/s 139(4) on 29.12.2023.



PAPER – 5: INDIRECT TAX LAWS

- (1) All questions have been answered on the basis of position of (i) GST law as amended by the Finance Act, 2023 including significant notifications and circulars and other legislative amendments made, up to 31st October, 2023 and (ii) customs law as amended by the Finance Act, 2023 including significant notifications and circulars and other legislative amendments made, up to 31st October, 2023.**
- (2) Unless otherwise specified, the section numbers and rules referred herein pertain to the Central Goods and Services Tax Act, 2017 and the Central Goods and Services Tax Rules, 2017 respectively.**
- (3) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. The rates of customs duty are also hypothetical and may not necessarily be the actual rates. Further, GST compensation cess should be ignored in all the questions, wherever applicable.**



QUESTIONS

Case scenario - I

Dhairya Limited, India, a registered supplier under GST in the State of Kerala, is engaged in supplying goods and services. Dhairya Inc., San Francisco, USA, is a subsidiary of Dhairya Limited, India and is engaged in supply of information technology services to customers in USA. Dhairya Limited, India has undertaken following transactions during the month of April:

Particulars	Amount (₹)
Supplied large paper rolls to Ford Mount School, Bengaluru (Karnataka), for printing of question papers. As directed by the school, Dhairya Limited delivered the paper rolls at a printing press located in Trivandrum, Kerala.	15,00,000
Bond amount recovered from the outgoing Managing Director (residing in Kerala) of Dhairya Limited since he had left the employment before contracted period.	2,50,000
Supplied steel sheets in the territorial waters* to Dhruvank Builders. *Located at a distance of 12 nautical miles from the baseline of Kerala and 15 nautical miles from the baseline of Tamil Nadu.	6,00,000
Received an advance for future supplies of goods from a customer based in Kerala	2,10,000
Received an advance for future supplies of services from a customer based in Kerala	4,90,000
Computer (used for business purpose & on which no ITC has been taken yet) given free of cost to unrelated person based in Kerala [Purchased 2 years' back at a price of ₹ 1,12,100 (including GST). Open market value is ₹ 75,000.]	Nil

Dhairya Limited provided the following additional information for the month of April:

- (i) The company paid the sitting fee of ₹ 6,00,000 to an independent director, based at Cochin, Kerala, for attending meetings.
- (ii) Room charges of ₹ 2,25,000 were paid to Hillwoods Hotel located in Mumbai, Maharashtra for stay of the CEO of the company on a business trip.
- (iii) The company availed the services of an Arbitral Tribunal in Cochin, Kerala to settle a business dispute and paid ₹ 7,00,000.

- (iv) Salary of ₹ 15,00,000 was paid to employees on payroll.
- (v) The company purchased a new machinery from a dealer based in Cochin, Kerala for ₹ 12,00,000. Depreciation has been claimed under the Income-tax Act, 1961 on the same including on all applicable taxes.

In the month of May, Dhairya Limited sent a team of 25 employees to San Francisco for receiving the training in emerging information technologies. The training was given by Dhairya Inc., USA, at its office located in San Francisco. The expenses related to such training were paid by Dhairya Limited to Dhairya Inc., USA.

Further, Dhoom Events Ltd., an event management company, located and registered at Karnataka, had organized a cultural event in the month of May for Dhairya Limited, in Dubai. Dhairya Limited paid a sum of ₹ 10,00,000 to Dhoom Events Ltd. for the same.

Notes –

- (A) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supply of goods and services, wherever applicable.
- (B) All the amounts given above are exclusive of taxes, wherever applicable.
- (C) The opening balance of input tax credit for the relevant tax periods of Dhairya Limited, India is Nil.
- (D) Assume that there is no other outward or inward transaction apart from aforesaid transactions, in the months of April and May.

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

1. Which of the following activities/transactions undertaken by Dhairya Limited do not amount to supply?
 - (i) Supply of steel sheets in territorial waters
 - (ii) Computer being used for business purpose given free of cost to unrelated person

(iii) Supply of paper rolls for printing of question papers to Ford Mount Senior Secondary School

(iv) Recovery of bond amount from the outgoing Managing Director

Choose the most appropriate option.

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

2. Which of the inward supplies received by Dhairya Limited in the month of April are taxable under reverse charge?

- (i) Services received from the independent director
- (ii) Accommodation services received from Hillwoods Hotel, Mumbai
- (iii) Services of the Arbitral Tribunal
- (iv) New machinery purchased from the dealer based in Cochin
- (v) Salary paid to employees on payroll

Choose the most appropriate option.

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

3. Compute the total GST payable on outward supplies before setting off of ITC for the month of April by Dhairya Limited.

- (a) CGST - ₹ 1,03,050, SGST - ₹ 1,03,050 and IGST - ₹ 2,70,000
- (b) CGST - ₹ 98,100, SGST - ₹ 98,100 and IGST - ₹ 2,70,000
- (c) CGST - ₹ 1,35,000, SGST - ₹ 1,35,000

- (d) CGST - ₹ 98,100, SGST - ₹ 98,100
4. Compute the total ITC admissible to Dhairya Limited for the month of April.
- (a) CGST - ₹ 63,000, SGST - ₹ 63,000 and IGST - ₹ 40,500
- (b) CGST - ₹ 1,17,000, SGST - ₹ 1,17,000 and IGST - Nil
- (c) IGST - ₹ 2,74,500
- (d) CGST - ₹ 2,25,000, SGST - ₹ 2,25,000 and IGST - ₹ 40,500
5. Whether GST is applicable on the event organized by Dhoom Events Ltd., Karnataka for Dhairya Limited in Dubai and what is the place of supply in such case?
- (a) GST is applicable and the place of supply is Karnataka.
- (b) GST is applicable and the place of supply is Kerala.
- (c) GST is not applicable and the place of supply is Dubai.
- (d) GST is applicable and the place of supply is Dubai.
6. How shall the amount paid towards the training expenses of employees of Dhairya Limited be treated under the GST law?
- (a) No GST is applicable on the transaction since training was imparted in San Francisco, i.e., a place outside India.
- (b) GST is applicable on the training expenses and is payable as IGST by Dhairya Limited since the place of supply for training services in case of registered person is location of such registered person.
- (c) Dhairya Inc., USA, is required to obtain registration as casual taxable person in India and discharge the GST liability on training expenses in India.
- (d) Dhairya Inc., USA, is required to obtain registration as - online information and database access or retrieval service provider in India and discharge the tax liability on training service.

Case scenario - II

Alpha Cargo Private Limited, a company registered under GST in the State of Rajasthan, is engaged in supplying services of transportation of goods. In addition to its head office registered in Rajasthan, the company has also obtained registration in other States where it is operating as supplier of goods transportation services. During the month of January, following transactions were undertaken:

1. Revenue from service of transportation of goods provided to registered persons is ₹ 70,00,000.
2. Revenue from supply of goods transportation services provided to Dhoop Garments, registered in Rajasthan, for transport of goods to Japan is ₹ 18,10,000.
3. The company paid rent to the local municipal authorities of respective States for its offices located in different States as mentioned below:
 - Rajasthan – ₹ 50,000
 - Maharashtra – ₹ 75,000
 - Delhi – ₹ 25,000
 - Gujarat – ₹ 40,000

The invoice was issued by the local municipal authority in these States to the offices of the company located in respective States.

4. There are 5 independent directors in the company (all based in Rajasthan) and the sitting fees paid to each such director during the month is ₹ 25,000 from the head office of the company.

Out of these directors, Mr. X, a chartered accountant and an independent director of the company, is also a partner in ABC LLP, a chartered accountant firm in Delhi. ABC LLP provided professional services to the company during the month. The LLP has issued an invoice for ₹ 1,50,000 on the head office in the month of January.

Another independent director, Mr. Z, on account of his long-term relationship with Alpha Cargo Private Limited, has provided personal guarantee of ₹ 1 crore to Dhandhan Bank for loan taken by the company

during the month of January. He has not charged any commission or brokerage for the same.

5. The company obtained services of Mr. Y (based in Rajasthan), who is providing agency services for payment of annual road tax payable to the Government for the vehicles owned and operated by the company. Mr. Y issued an invoice amounting to ₹ 10,00,000 on the head office. Such amount includes ₹ 9,50,000 as amount of road tax paid on actual basis and is indicated separately in the invoice and ₹ 50,000 as fee of Mr. Y for said services.
6. The company also paid an amount of ₹ 5,00,000 for an event related to goods transport industry in the State of Rajasthan as sponsorship amount.
7. The company, registered as Goods Transport Agency, has opted for payment of GST on goods transportation services on forward charge basis.

In the month of February, Rajasthan office of the company has following balances available in its electronic cash ledger:

Description	IGST (₹)	CGST (₹)	SGST (₹)	Total (₹)
Tax	25,000	20,000	20,000	65,000
Interest	2,000	3,000	3,000	8,000

All the amounts given in the scenario are exclusive of GST, unless otherwise provided. The opening balance of input tax credit of Alpha Cargo Private Limited for the relevant tax periods is nil. GST is payable (wherever applicable) on all inward and outward transactions in the aforesaid case scenario at the following rates, unless otherwise specified:

- I. Intra-State supply – 9% CGST and 9% SGST
- II. Inter-State supply – 18% IGST

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

7. Total amount of GST payable (before setting off of ITC) by the company including GST payable under reverse charge for the month of January, for all its locations, is:

- (a) ₹ 16,20,000
 - (b) ₹ 12,60,000
 - (c) ₹ 13,72,000
 - (d) ₹ 17,32,500
8. In February, after paying all its dues for the month, Rajasthan office wants to transfer certain amounts using Form GST PMT-09 from its electronic cash ledger to the electronic cash ledger of Orissa office. It wants to transfer:
- (i) from tax (minor head) under IGST (major head) amounting to:
 - (a) ₹ 12,000 to tax under CGST head and
 - (b) ₹ 12,000 to tax under SGST head,of Orissa office, and
 - (ii) from interest (minor head) under the major head of:
 - (a) CGST of ₹ 3,000 to interest under IGST head, and
 - (b) SGST of ₹ 3,000 to interest under IGST head,of Orissa office.
- Balance under all the heads in electronic cash ledger of Orissa office is nil at that time. The balance of tax under IGST, CGST and SGST heads of the electronic cash ledger of Orissa office and that of interest under IGST, CGST and SGST heads of the electronic cash ledger of Rajasthan office will be:
- (a) **Tax:** Nil; ₹12,000; Nil and **Interest:** ₹ 2,000; Nil; ₹ 3,000
 - (b) **Tax:** Nil; ₹12,000; ₹12,000 and **Interest:** ₹2,000; Nil; Nil
 - (c) **Tax:** Nil; Nil; ₹12,000 and **Interest:** ₹2,000; Nil; Nil
 - (d) **Tax:** ₹24,000; Nil; Nil and **Interest:** ₹2,000; Nil; ₹3,000
9. The total amount payable to Mr. Y including GST as applicable is _____.
- (a) ₹ 10,00,000
 - (b) ₹ 11,80,000

- (c) ₹ 11,71,000
(d) ₹ 10,09,000
10. Total input tax credit available to the company at PAN India level is:
- (a) ₹ 1,82,700 as IGST
(b) ₹ 3,53,700 as IGST
(c) ₹ 77,850 as CGST, ₹ 77,850 as SGST and ₹ 27,000 as IGST
(d) ₹ 91,350 as CGST and ₹ 91,350 as SGST
11. The value of supply of the service of providing personal guarantee by Mr. Z to Dhandhan Bank for sanctioning of credit facilities to the company is:
- (a) Nil since it is not a supply under GST.
(b) Nil. Services provided by a director to a company is deemed as supply, even without consideration, under Schedule I of the CGST Act, 2017. However, since as per RBI Guidelines, no consideration can be paid to the director by the company for providing guarantee, Open Market Value (OMV) of said supply will be zero.
(c) 1% of the amount of the guarantee provided, i.e. ₹ 1 lakh.
(d) 10% of the amount of the guarantee provided, i.e. ₹ 10 lakh.
12. Ms. Paarvati, an Indian resident who was on a visit to USA, returned after 1 year for contesting in assembly elections of her State. She was carrying with her the following items:
- (i) Personal effects ₹ 59,000
(ii) Laptop computer ₹ 37,000
(iii) Jewellery - 25 grams (purchased in USA) ₹ 67,000
(iv) Music system ₹ 1,25,000
- Compute the customs duty payable by Ms. Paarvati with reference to the Baggage Rules, 2016. Ignore Agriculture Infrastructure and Development Cess.
- (a) ₹ 28,875

(b) ₹ 54,670

(c) ₹ 68,915

(d) ₹ 43,120

13. Sitaram Industries Limited, a registered entity under GST, in the State of Karnataka, is engaged in manufacture and supply of both taxable and exempt goods and services. Following information for the month of October, 2023 is provided by it:

S. No.	Particulars	Amount (₹)
	OUTWARD SUPPLIES:	
A	Sold an old warehouse building in the State of Karnataka to a retail giant in the same State	30,00,000
B	Supplied 30 laptops over the counter to Mr. Sudhakar, an unregistered buyer, who took it to his residence in Haryana. [Invoice issued to him mentions only his name and State. However, his complete address of Haryana is missing in the invoice.]	12,00,000
	Special boxes for packing of the laptops	1,30,000
C	Provided Direct Selling Agent service to Kumkum Bank, registered in Karnataka	4,00,000
D	Provided pure labour services pertaining to a single residential unit in Mumbai, Maharashtra (otherwise than as a part of residential complex) for erection and installation of renovation works for a client registered in Maharashtra	6,20,000
E	Provided free of cost training in a resort in Puducherry to its agents based in the State of Karnataka on effective use of the products of the company. [Open market value of the said service is ₹ 1,00,000. Value of supply of service of like kind and quality is ₹ 1,20,000.]	

F	Interest received on fixed deposits from Sulakshan Bank, registered in Karnataka	2,00,000
	INWARD SUPPLIES:	
G	Received a debit note in respect of inward intra-State taxable supplies received in the financial year 2020-21 for the quantity difference as agreed. These inward supplies were used for all goods manufactured in factory. Date of debit note is 16 th October, 2023.	4,00,000
H	Solar panels installed in the factory for providing electricity to be used in factory (Intra-State)	5,00,000
I	Purchased employee uniforms for 1000 employees (Inter-State) [Uniforms worth ₹ 3,00,000 were necessary to ensure the safety of the workers while carrying out the manufacturing activity. Remaining uniforms worth ₹ 4,00,000 were sometimes worn by the employees outside the factory for personal purposes.]	7,00,000

The company provided the following additional information:

- i. In respect of sale of old warehouse building, stamp duty was paid on ₹ 32 lakh.
- ii. The company provided a corporate guarantee of ₹ 2 crores to Laxmi Logistics Limited, its related company having registered office in the State of Karnataka, for loan availed by the latter from Jandhan Bank Ltd., Karnataka.
- iii. The accountant of the company did not claim input tax credit in respect of debit note received for the reason that the original purchase related to earlier years for which ITC claim eligibility was over.
- iv. Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supply of goods and services, except

special packing boxes for which the applicable rates of CGST, SGST and IGST are 6%, 6% and 12% respectively.

- v. All the amounts given above are exclusive of taxes, wherever applicable

From the information given above, you are required to compute the eligible ITC available for set off and minimum net GST payable in cash (CGST, SGST or IGST, as the case may be) for the month of October, 2023. Provide brief reasons for the treatment of each item.

14. Fortune 365 is an online money gaming platform operating from UAE. It provides its users a platform to play and win money in different games that are available on its portal.

In the month of December, Player A, an unregistered person located in India, deposited an amount of ₹ 10,000 (inclusive of GST) in the master wallet available on the portal of Fortune 365. Subsequently, following transactions were undertaken by Player A in said month:

- i. Player A utilized the amount of ₹ 2,000 from the master wallet towards playing a virtual racing game on the portal. As a winning amount, ₹ 10,000 was credited to the master wallet of Player A.
- ii. On another portal operated by Fortune 365 in the name of Bet 180, Player A placed a bet of face value of ₹ 11,000 on an international wrestling match. The amount of such bet was paid by the master wallet of Player A. However, he lost the bet and hence the bet amount of ₹ 11,000 with applicable taxes was transferred from the master wallet to the bank account of Bet 180.
- iii. Player A transferred the balance amount from the master wallet to his bank account after the aforesaid transactions. Assume all the above transactions to be exclusive of GST unless otherwise specified.
- iv. Rate of GST applicable is 28% (Please ignore the bifurcation of GST amount into CGST, SGST and IGST.)

Based on the information provided above, answer the following questions, providing brief reasons:

- (1) Compute the total GST payable on the aforesaid given transactions.

- (2) Determine the net amount transferred by Player A to his bank account after the aforesaid transactions.
- (3) Ascertain whether Fortune 365 is required to obtain registration under GST in India. Will your answer be different if Player A is registered under GST in India?
15. Bindusara commences the business of supplying taxable goods locally within the State of Rajasthan in April. He is not yet registered under GST. As his aggregate turnover reaches ₹ 8 lakh by the end of the month of June, Bindusara starts exploring the option to sell the goods supplied by him within Rajasthan on a popular electronic commerce platform – E-vastustore by listing the goods on the said platform.
- He approaches you for advice on following issues in this regard:
- (A) Bindusara wishes to continue his business without registering under GST since it will enhance the compliance burden under GST law. Can he supply the goods through E-vastustore without obtaining GST registration? You are required to advise him.
- (B) Discuss the GST implications in case Bindusara supplies goods through electronic commerce platform - E-vastustore.
16. A Ltd. is registered under GST in Rajasthan, Delhi, Haryana and Punjab. Due to closure of business activities in Rajasthan with effect from May 31, 2023, A Ltd. filed an application for cancellation of registration before the jurisdictional tax authorities of Rajasthan. The application for cancellation of registration was filed on June 30, 2023. The registration was suspended with immediate effect from June 30, 2023, by the jurisdictional tax authorities. The final order of cancellation was dated July 31, 2023.

You are required to advise A Ltd. regarding the last date for filing the final return by it in Rajasthan.

Further, A Ltd. was also registered as an ISD (Input Service Distributor) in Rajasthan; said registration was cancelled with effect from June 30, 2023 with an order dated July 31, 2023. Advise whether the final return is required to be filed upon cancellation of ISD registration by A Ltd.? If yes, what is the due date for filing said final return?

17. Zebrex, registered in Delhi, enters into a contract with Shine Ltd., an advertising company, located and registered in Gurugram, Haryana, to arrange the display of an advertisement of Zebrex's newly launched product on a hoarding placed in Marine Drive-Mumbai, Maharashtra for initial 3 months of the launch of the product. Shine Ltd., in turn, enters into a contract with the owner of Seaside Hotel located and registered in Marine Drive-Mumbai, Maharashtra for display of the advertisement on a hoarding placed in the lawn of the hotel. What will be the place of supply of service(s) provided in the given case?
18. Product 'Hexa' was imported by Mr. Narayan by air. The details of the import transaction are as follows:

Particulars	US \$
Price of 'Hexa' at exporter's factory	8,000
Freight from factory of the exporter to load airport (airport in the country of exporter)	500
Loading and handling charges at the load airport	500
Freight from load airport to the airport of importation in India	4,000
Insurance charges	2,000

Though the aircraft arrived on 24th November, the bill of entry for home consumption was presented by Mr. Narayan on 20th November.

The other details furnished by Mr. Narayan are:

	20 th November	24 th November
Rate of basic customs duty	15%	10%
Exchange rate notified by CBIC	₹ 70 per US\$	₹ 73 per US\$
Exchange rate prescribed by RBI	₹ 72 per US\$	₹ 74 per US\$
Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975	15%	12%

Compute-

- (i) value of product 'Hexa' for the purpose of levying customs duty

(ii) total customs duty and tax payable

19. Shivansh Ltd. imported a machine from Germany for ₹ 180 lakh during the month of March 2022 on payment of all duties of customs. Due to some technical manufacturing defect the machine was exported (sent back) to supplier for repairs in October 2022. The machine was re-imported without any re-manufacturing or reprocessing in August 2023 after repairs. Since the machine was under warranty period, the repairs were carried out free of cost.

However, the fair cost of repairs carried out (excluding cost of material ₹ 10 lakh) would have been ₹ 5 lakh. Actual insurance and freight charges (to and from) were ₹ 5 lakh (₹ 2.50 lakh each side). The ownership of machinery has not been changed during the period.

You are required to advise Shivansh Ltd. on the concessions (if any) available for importation of the machinery after repairs, also state the conditions to be satisfied for availing such concession.

Also compute the customs duty and integrated tax payable (if any) on the re-import of the machine after repairs.

The rate of basic customs duty is 15% and integrated tax is 12%. Ignore Agriculture infrastructure and development cess.

20. Sudhakar Export House, Madhya Pradesh, is engaged in export of goods to various neighbouring countries. It is keen on becoming a Status Holder and is desirous to know the privileges granted under Foreign Trade Policy (FTP) to various Status Holders. You are required to discuss the same with reference to FTP.

**SUGGESTED ANSWERS**

Question No.	Answer
1	(a) (ii) and (iv)
2	(d) (i) and (iii)
3	(b) CGST - ₹ 98,100, SGST - ₹ 98,100 and IGST - ₹ 2,70,000
4	(b) CGST - ₹ 1,17,000, SGST - ₹ 1,17,000 and IGST - Nil
5	(b) GST is applicable and the place of supply is Kerala.
6	(a) No GST is applicable on the transaction since training was imparted in San Francisco, i.e. place outside India.
7	(d) ₹ 17,32,500
8	(a) Tax: Nil; ₹12,000; Nil and Interest: ₹2,000; Nil; ₹3,000
9	(d) ₹ 10,09,000
10	(c) ₹ 77,850 as CGST, ₹ 77,850 as SGST and ₹ 27,000 as IGST
11	(b) nil. Services provided by a director to a company is deemed supply, even without consideration, under Schedule I of the CGST Act, 2017. However, since as per RBI Guidelines, no consideration can be paid to the director by the company for providing guarantee, Open Market Value (OMV) of said supply will be zero.
12	(a) ₹ 28,875

13. Computation of eligible ITC and net GST payable by M/s Sitaram Industries Ltd., for the month of October, 2023

Particulars	Value	IGST @ 18%	CGST @ 9%	SGST @ 9%
	₹	₹	₹	₹
Outward Supply:				
Sale of old warehouse	Nil	-	-	-

building [Since sale of building is neither supply of goods nor supply of services in terms of para 5 of Schedule III of the CGST Act, 2017, it does not qualify as supply.]				
Supply of laptops [Inter-State supply since place of supply here is the location as per the address of the unregistered recipient (name of the State) recorded in the invoice issued in respect of the supply, viz. Haryana, in terms of section 10(1)(ca) of the IGST Act, 2017. Further, as per section 8(a), supply of laptops with packing is a composite supply, chargeable to tax at the rate applicable to the principal supply (viz. supply of laptops) i.e., 18%.]	13,30,000 [12,00,000 + 1,30,000]	2,39,400	-	-
Direct Selling Agent service [Intra-State supply since place of supply here is the location of recipient, viz. Karnataka, in terms of	4,00,000	-	36,000	36,000

<p>section 12(2)(a) of the IGST Act, 2017.</p> <p>Further, tax will be payable under forward charge since such services are provided by a person other than individual - <i>Notification No. 13/2017 CT(R) dated 28.06.2017.</i>]</p>				
<p>Pure labour servicer</p> <p>[Inter-State supply since place of supply here is the location of immovable property, viz. Maharashtra in terms of section 12(3) of the IGST Act, 2017.</p> <p>Further, services by way of pure labour contracts of erection and installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt in terms of <i>Notification No. 12/2017 CT(R) dated 28.06.2017</i> However, such services in relation to renovation work are not exempt.]</p>	6,20,000	1,11,600	-	-
<p>Free training to agents</p> <p>[Services provided by the company to agents without consideration is not deemed as supply in</p>	1,00,000	-	-	-

terms of para 3 of Schedule-I since only goods supplied by principal to agent are covered therein. Further, such services are also not covered in para 2 of Schedule I as agents are not related persons.]				
<p>Corporate guarantee provided to Laxmi Logistics Limited</p> <p>[Supply of service between related parties even when made without any consideration is deemed supply in terms of Schedule I.</p> <p>Further, value of corporate guarantee, in terms of rule 28(2), will be higher of:</p> <p>(i) 1% of the amount of such guarantee offered,</p> <p>or</p> <p>(ii) actual consideration]</p> <p>(i.e. 1% of ₹ 2 crore)</p> <p><i>[Circular No. 204/16/2023 GST dated 27.10.2023]</i></p>	2,00,000	-	18,000	18,000
<p>Interest received on fixed deposits</p> <p>[Services by way of extending deposits, loans</p>	2,00,000	-	-	-

or advances in so far as the consideration is represented by way of interest are exempt vide <i>Notification No. 12/2017 CT (R) dated 28.06.2017</i>				
Gross GST liability [A]		3,51,000	54,000	54,000
Less: ITC available for set off [Refer Note (iii) below]		24,958	16,639	16,639
Net GST payable in cash		3,26,042	37,361	37,361

Notes:**(i) Computation of ITC admissible to Sitaram Industries Ltd. for the month of October, 2023**

Particulars	Value	IGST	CGST	SGST
	₹	₹	₹	₹
Debit note received [ITC on debit notes issued in a financial year can be availed any time till 30 th November of the succeeding financial year or the date of filing of the relevant annual return, whichever is earlier, irrespective of the date of original invoice/ supply, in terms of section 16(4).]	4,00,000	-	36,000	36,000
Solar panels purchased [ITC cannot be claimed in respect of solar panels, since ITC on goods or services or both received by a taxable person for construction of an immovable property (other than plant and machinery on his own account including		-	-	-

when such goods or services or both are used in the course of furtherance of business is blocked in terms of section 17(5)(d).]				
Uniforms purchased [ITC on the uniforms which are necessary to ensure the safety of the employees while carrying out the business activity, is available. However, uniforms not provided for any safety purpose are construed as being used for personal consumption and thus, ITC thereon is blocked in terms of section 17(5)(d).]	3,00,000	54,000	-	-
Total		54,000	36,000	36,000

(ii) Computation of common credit attributable to exempt supplies in respect of Sitaram Industries Ltd. for the month of October, 2023

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Common credit on receipt of debit note [Debit note, although received in respect of taxable inward supply, is being used for all goods manufactured in factory which comprises of both taxable and exempt goods.]	--	36,000	36,000
Common credit on purchase of uniforms [Uniforms are being used commonly for manufacturing of both taxable and exempt goods.]	54,000		

Common credit attributable to exempt supplies (rounded off)	29,042	19,361	19,361
= Common credit x (Exempt turnover during the period / Total turnover during the period)			
= ₹ 54,000 x ₹ 32,00,000 / ₹ 59,50,000 (IGST)			
= ₹ 36,000 x ₹ 32,00,000 / ₹ 59,50,000 (CGST/SGST)			
Exempt turnover = ₹ 32,00,000 and total turnover = ₹ 59,50,000 [Refer note below]			

Note: As per explanation to section 17(3), the expression "value of exempt supply" shall not include the value of activities or transactions specified in Schedule III, except, *inter alia*, sale of building subject to clause (b) of paragraph 5 of Schedule II. Further, as per explanation to Chapter V (Input Tax Credit) of the CGST Rules, 2017, for determining the value of an exempt supply as referred to in section 17(3), the value of exempt supply in respect of land and building is the value adopted for the purpose of paying stamp duty.

Further, as per explanation 1 to rule 43, the aggregate value of exempt supplies for the purpose of rules 42 and 43, *inter alia*, excludes the value of services by way of accepting deposits, extending loans or advances in so far as the consideration is represented by way of interest or discount, except in case of a banking company or a financial institution including a non-banking financial company, engaged in supplying services by way of accepting deposits, extending loans or advances.

Therefore, value of exempt turnover in the given case will be the value of building (₹ 32,00,000).

Total turnover will be sum of value of building (₹ 32,00,000) + supply of laptop (₹ 13,30,000) + supply of Direct Selling Agent service (₹ 4,00,000) + supply of pure labour service (₹ 6,20,000) + supply of corporate guarantee (₹ 2,00,000) + interest received on fixed deposits (₹ 2,00,000)
= ₹ 59,50,000

(iii) **Computation of ITC available for set off of Sitaram Industries Limited for the month of October, 2023**

Particulars	IGST (₹)	CGST (₹)	SGST (₹)
Common credit on inputs and input services	54,000	36,000	36,000
ITC available in the Electronic Credit Ledger	54,000	36,000	36,000
Less: Common credit attributable to exempt supplies during the tax period [As calculated in Note (ii) above]	29,042	19,361	19,361
ITC available for set off	24,958	16,639	16,639

14. The value of online money gaming related supply shall be determined as per rule 31B. As per said rule, the value of supply of online gaming, including supply of actionable claims involved in online money gaming, shall be the total amount paid or payable to or deposited with the supplier by way of money or money's worth, including virtual digital assets, by or on behalf of the player.

Further, rule 31A provides the manner of determining the value of supply of actionable claim in the form of chance to win in betting. The value for such supply shall be 100% of the face value of the bet.

In accordance with the above provisions:

(1) Total GST payable on given transactions is as follows:

- (i) Value of supply of online money gaming = Total amount deposited with the supplier by the player in terms of rule 31B
= Initial deposit of ₹ 10,000 (inclusive of GST) by Player A with Fortune 365 after excluding GST = ₹ 7,812.50 (₹ 10,000 × 100/128)

GST payable = ₹ 7,812.50 × 28%

= ₹ 2,188 – [A]

- (ii) Value of supply of online bet = 100% of the face value of the bet in terms of rule 31A = ₹ 11,000

GST payable = ₹ 11,000 × 28%)

= ₹ 3,080 – [B]

Total amount of GST that would be collected by the Government on the given transactions = [A] + [B] = 5,268 (rounded off)

- (2) **Total amount transferred by Player A to his bank account from the master wallet is as follows:**

Particulars	Amount (₹)
Initial Deposit	10,000
Less – GST on deposit	2,188
Less – Payment for virtual racing game	2,000
Add – Winning from virtual racing game	10,000
Less – Payment for bet placed on Bet 180	11,000
Less – GST on the bet place on Bet 180	3,080
Net balance available for transfer	1,732

- (3) As per section 24(xia), every person supplying online money gaming from a place outside India to a person in India shall be required to obtain registration on a mandatory basis in India. Accordingly, Fortune 365 being a supplier of online money gaming operating from UAE and supplying services in India shall be liable to obtain registration compulsorily in India. The answer will not change irrespective of the fact that Player A is registered under GST in India or not.

15. (A) Yes, Bindusara can supply goods through E-vastustore without obtaining GST registration.

As per section 24(ix), persons who supply goods and/or services, other than services notified under section 9(5), through such electronic commerce operator (hereinafter referred as ECO) who is required to collect TCS under section 52 is required to obtain registration mandatorily.

However, the persons making supplies of goods through an ECO who is required to collect TCS and having an aggregate turnover in the preceding financial year and in the current financial year not exceeding the threshold limit in accordance with the provisions of section 22(1), are exempted from obtaining registration, vide *Notification No. 34/2023 CT dated 31.07.2023*, subject to the following conditions, namely:

- (i) such persons shall not make any inter-State supply of goods;
- (ii) such persons shall not make supply of goods through ECO in more than one State/Union territory;
- (iii) such persons shall be required to have a PAN issued under the Income-tax Act, 1961;
- (iv) such persons shall, before making any supply of goods through ECO, declare on the common portal:
 - a. their PAN
 - b. address of their place of business and
 - c. State/UT in which such persons seek to make such supply,which shall be subjected to validation on the common portal;
- (v) such persons have been granted an enrolment number on the common portal on successful validation of the PAN declared above;
- (vi) such persons shall not be granted more than one enrolment number in a State/UT;

- (vii) no supply of goods shall be made by such persons through ECO unless such persons have been granted an enrolment number on the common portal; and
- (viii) where such persons are subsequently granted registration under section 25, the enrolment number shall cease to be valid from the effective date of registration.

Thus, Bindusara can supply goods through E-vastustore without obtaining GST registration till the time its aggregate turnover does not exceed the threshold limit in accordance with the provisions of section 22(1) thereby complying with the aforesaid conditions.

- (B)** As Bindusara is not required to obtain registration under GST, there shall be no GST implications on the supplies made by him through electronic commerce platform - E-vastustore.

However, the electronic commerce operator - E-vastustore – is required to submit the details of supplies made through it by the unregistered suppliers (including Bindusara) having enrolment number in Form GSTR 8. Further, no tax at source shall be collected by the E-vastustore in respect of such supplies.

- 16.** As per section 45 read with rule 81, every registered person who is required to file a return under section 39(1) and whose registration has been cancelled is required to file a final return electronically in Form GSTR-10 through the common portal. The final return has to be filed within 3 months of the:

- (i) date of cancellation
- or
- (ii) date of order of cancellation

whichever is later.

Thus, in the given case, final return for Rajasthan registration has to be furnished within three months of the date of order of cancellation of registration (July 31, 2023). Hence, final return has to be filed by A Ltd. on or before October 31, 2023.

Further, since an ISD is not required to furnish return under section 39(1) but under section 39(4), final return is not required to be filed upon cancellation of ISD registration. Therefore, A Ltd. is not required to furnish final return for ISD registration cancelled.

17. In the given case, two supplies are involved:

- (i) Services provided by Shine Ltd. to Zebrex by way of arranging the display of the advertisement of its newly launched product, and
- (ii) Services provided by Seaside Hotel to Shine Ltd. by way of placing a hoarding in the lawn of the hotel.

The place of supply in each of the above supplies is as follows:

- (i) As per section 12(2)(a) of the IGST Act, 2017, the place of supply of services, except the services specified in sub-sections (3) to (14) of section 12 of the IGST Act, 2017, made to a registered person is the location of the person receiving the services. Advertisement services provided by Shine Ltd. to Zebrex is not covered in any of the sub-sections of section 12 of the IGST Act, 2017. Therefore, the place of supply shall be determined by the default provision under section 12(2)(a) of the IGST Act, 2017, viz. the location of the recipient.

Thus, the place of supply, in the given case, is the location of Zebrex, i.e. Delhi.

- (ii) In case where there is supply (sale) of space or supply (sale) of rights to use the space on the hoarding/ structure (immovable property) belonging to vendor to the client/advertising company for display of their advertisement on the said hoarding/ structure, the hoarding/structure erected on the land should be considered as immovable structure or fixture as it has been embedded in earth. Further, place of supply of any service provided by way of supply (sale) of space on an immovable property or grant of rights to use an immovable property shall be governed by the provisions of section 12(3)(a) of the IGST Act. Therefore, the place of supply of service provided by way of grant of rights to use the hoarding/

structure for advertising in this case would be the location where such hoarding/ structure is located.

Thus, the place of supply, in the given case, is location of hotel where the hoarding is located, viz. Marine Drive-Mumbai, Maharashtra.

18. Computation of assessable value of product 'Hexa'

Particulars		Amount
Ex-factory price of the goods 'Hexa'		8,000 US \$
Freight from factory of the exporter to load airport (airport in the country of exporter)	500 US \$	
Loading and handling charges at the load airport	500 US \$	
Freight from load airport to the airport of importation in India	<u>4,000 US \$</u>	
Total cost of transport, loading and handling charges associated with the delivery of the imported goods to the place of importation	5,000 US \$	
<i>Add:</i> Cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation (restricted to 20% of FOB value) [Note 1]		1,800 US \$
Insurance (actual)		<u>2,000 US \$</u>
CIF for customs purpose		11,800 US \$
Value for customs purpose		11,800 US \$
Exchange rate as notified by CBIC [Note 2]		₹ 70 per US \$
		Amount (₹)
Assessable value (₹ 70 x 11,800 US \$)		8,26,000

Add: Basic customs duty @ 10% [Note 3]	82,600
Add: SWS @ 10%	<u>8,260</u>
Value for the purpose of levying integrated tax [Note 4]	9,16,860
Add: Integrated tax @ 12%	1,10,023.20
Total duty & tax payable (rounded off)	2,00,883

Notes:

- (1) In the case of goods imported by air, the cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation shall not exceed 20% of the FOB value of the goods [Fifth proviso to rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007].

FOB value in this case is the ex-factory price of the goods (8,000 US \$) plus the cost of transport from factory to load airport (500 US \$) plus loading and handling charges at the load airport (500 US \$) which is 9,000 US \$.
 - (2) Rate of exchange as notified by CBIC on the date on which bill of entry is presented under section 46 of the Customs Act, 1962 is to be considered [Clause (a) of the explanation to section 14 of the Customs Act, 1962].
 - (3) Section 15 of the Customs Act, 1962 provides that rate of duty shall be the rate in force on the date of presentation of bill of entry or the rate in force on the date of arrival of aircraft, whichever is later.
 - (4) Integrated tax is levied on the sum total of the assessable value of the imported goods and customs duties [Section 3(8) of the Customs Tariff Act, 1962]. Social Welfare Surcharge (SWS) leviable on integrated tax has been exempted.
- 19.** As per *Notification No. 45/2017 Cus. dated 30.06.2017*, duty payable on re-importation of goods which had been exported for repairs abroad is the duty of customs which would be leviable if the value of re-imported

goods after repairs were made up of the fair cost of repairs carried out including cost of materials used in repairs (whether such costs are actually incurred or not), insurance and freight charges, both ways. However, following conditions need to be satisfied for availing this concession:

- (a) goods must be re-imported within 3 years, extendable by further 2 years, after their exportation;
- (b) exported goods and the re-imported goods must be the same;
- (c) ownership of the goods should not change.

Since all the conditions specified above are fulfilled in the given case, the customs duty payable on re-imported goods will be computed as under:

Particulars	₹
Value of goods re-imported after exports [Cost of materials ₹ 10 lakh + fair cost of repairs ₹ 5 lakh + actual insurance and freight Rs. 5 lakh]	20,00,000
Add: Basic customs duty @ 15% (A)	3,00,000
Add: Social Welfare Surcharge @ 10% on ₹ 3,00,000 (B)	<u>30,000</u>
Value for computing integrated tax	23,30,000
Integrated tax @ 12% (₹ 23,30,000 x 12%) - (C)	2,79,600
Customs duty and integrated tax payable [(A) +(B)+ (C)]	6,09,600

20. Status holders are eligible the following privileges under FTP:

- (a) Authorisation and custom clearances for both imports and exports on self-declaration basis.
- (b) Fixation of Input Output Norms on priority i.e., within 60 days by Norms Committee.
- (c) Exemption from compulsory negotiation of documents through banks. Exception are remittance/ receipts.

- (d) Exemption from furnishing of Bank Guarantee in Schemes under FTP unless otherwise specified.
- (e) Two Star Export Houses and above are permitted to establish export warehouses as per the guidelines of Department of Revenue.
- (f) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods (as per their Industrial Entrepreneurs Memorandum (IEM) / Industrial License (IL) /Letter of Intent (LOI)) as originating from India with a view to qualify for preferential treatment under specified agreements.
- (g) Status holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to a specified annual limit.
- (h) The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.






PAPER – 6

INTEGRATED BUSINESS SOLUTIONS



QUESTIONS

Case Study-1

About Case Study	
 Industry	Airlines
 Subjects	Financial Reporting, Corporate Law, Indirect Tax, Auditing, Strategic Cost Management
 Topics	Ind AS 115, GST on airport levies, Risk in a Statutory Audit, SA 240, Kano's Model, Porter's Five Forces, Section 161 of the Companies Act 2013, Regulation 17A of the SEBI (LODR) Regulations 2015, Balanced Scorecard

Civil Aviation Industry and Company Outlook

Aviation industry has the power to change the economic landscape of a country. Connectivity is important for generation of economic growth, trade, and tourism. Millions depend on this industry for their employment, either directly or indirectly. In the recent past, the entire industry worldwide was crippled by the COVID-19 pandemic. The years 2020 and 2021 proved to be the most trying and difficult period for all companies within this industry.

"When everything seems to be going against you, remember that the airplane takes off against the wind, not with it". Who should know better than Krishna Gupta who is the Managing Director of KG Airlines, one of India's leading airlines? The quote hangs on the wall at the entrance to KG Airlines' headquarters in Gurugram.

It has taken few years to rebound back to normal scale of business operations. With the impact of COVID-19 subsiding and the easing of travel restrictions, there has been a rebound passenger traffic.

Indian economy is being considered as one of the fastest growing economies, with projections for a GDP growth of 7% year on year. Private consumption, growing economic activity in both manufacturing and service sectors has spurred growth since 2022. Post pandemic, with the easing of restrictions on civil aviation that appetite of consumers to travel has increased manifold.

In India, the passenger traffic has increased since 2022. With rise in disposable incomes, rapid urbanisation and increase in working class population, the growth in the demand for air travel is expected to persist. Tier 2 and Tier 3 cities are also expected to play a pivotal role due to greater spread of economic activity and increasing population in these cities. The government is focussed on building and expanding modern infrastructure facilities across the country in order to support the domestic civil aviation industry. Almost 100 more new airports will be operational by 2028 giving scope for development of new regional route that can provide excellent connectivity within India. It is expected that domestic aviation requires at least 4,000 fleets within the next two decades in order to meet the anticipated growth in demand.

KG Airlines

Founded in 1996 by Krishna Gupta of KG Partners and D Gupta, KG Airlines has evolved into a significant player in the aviation industry. KG Partners holds a 59% stake in KG Airlines, while D Gupta's Singapore company, DG Assets, owns 41%. In August 1999, KG Airlines placed a firm order for fifty A320-200 aircraft, with plans to commence operations in mid-2000. The airline received its inaugural aircraft on 10 August 2000, nearly a year after the initial order. The maiden flights connected New Delhi to Mumbai. By the close of 2022, KG Airlines boasted a fleet of 270 aircraft, and an additional 40 were acquired in December 2023, solidifying its presence in the aviation market. Presently, KG Airlines serves approximately 49 cities across 25 states, carrying a total of 90 million passengers. Traded under the symbol "KGA" on NSE, KG's Board of Directors operates from its Gurugram office. A concise overview of the Board of Directors' profiles is provided in Annexure A.

Selection of Business Model

The growth trajectory of the industry holds significant potential. Several Board meetings have taken place in the past three months to discuss the optimal strategies for expanding KG Airlines' business. During the meeting, enthusiastically, Managing Director exclaimed, *"The future abounds with enticing opportunities, catering to both full-service airlines, boasting premium offerings and employing a product differentiation strategy, and low-cost airlines, capitalizing on a cost advantage strategy."* Many business propositions for both these models were prepared, analysed, and discussed in depth.

After thorough study and deliberation, it was decided that KG Airlines had better prospects by developing as a low-cost airline. The focus for the next few years will be on the domestic civil aviation sector.

Transitioning to a new business model, KG Airlines has redefined its mission, vision, and purpose as under–

The Mission – *"KG Airlines is on a mission to provide connectivity with speed and reliability, making travel hassle free and affordable for our guests."*

The Vision – *"To be a leader in aviation by offering unmatched connectivity in and with India. Speed in and out of India with ease."*

The Purpose – *"Be our Guest, we connect you to your world."*

The airline aims to build a loyal customer base by (1) providing affordable rates, (2) on-time performance and (3) courteous and hassle-free service. These are reassurances that KG Airlines wishes to provide its customers (guests/ passengers).

Moreover, KG Airlines also envisions growth in size and scale. With 100 more airports coming up within India, KG Airlines aims to increase its fleet size by leasing aircrafts, develop more routes and provide unmatched connectivity to its customers. The expansion project is expected to be substantial, with an initial investment of at least a few hundred crore of Indian Rupees.

Operational Challenges in the Airline Industry

The management at KG Airlines soon realizes that there are multiple roadblocks to this expansion project. Increase in fleet size, development of more routes and providing unmatched connectivity all require one key element – more aircrafts. Unfortunately, in the current global scenario due to

disruptions in the supply chain, aircrafts are in short supply. Moreover, the compounding effect of rising operational costs is exerting substantial pressure on margins, and the availability of spare parts poses a significant challenge for KG Airlines.

Aircraft and spare parts availability: One of the key impacts of the pandemic has been the disruption in supply chain in aircraft manufacturing and subsequent shortage of engines worldwide. Manufacturers have been unable to keep pace with growing global demand from airline companies. Market expansion plans by operating new routes have been delayed due to unavailability of additional aircrafts. Therefore, many airlines are extending the existing leases of their current fleet in order to keep up with the operations.

Over and above this, many of the existing aircrafts have had to be grounded due to unavailability of spare parts. Therefore, there has been a shortfall in the deployment of capacity to meet customer demand on many routes.

Due to lop-sided demand-supply of aircrafts, aircraft lessors, who supply the aircrafts on lease, have been increasing the lease rental. This has increased the cost of operations substantially.

Increase in the cost of operations: Jet fuel prices have been very volatile and has been on an upward trend in the recent years. Consequently, KG Airlines regularly monitors the fuel prices and assesses their impact on profitability. But it has not taken use of financial instruments to hedge the exposure.

Another critical cost component for KG Airlines is the cost of leasing and operating aircrafts, which includes lease rental, maintenance and depreciation / amortization. As mentioned earlier, these costs are also on the rise.

In addition to fuel and aircraft-related costs, there is a high demand for pilots, as well as flight and cabin crew members. Consequently, flight crew salaries and expenses have been on the rise.

The cumulative effect of increasing operational costs, including high fuel costs, lease rentals, and personnel costs, has exerted immense pressure on operating margins.

Margins under pressure: The senior management has emphasized the necessity to pass on the increased costs to the customer. However, operating in an intensely competitive market presents a challenge, as there is a limit to how much ticket fares can be raised without losing competitiveness. This is

particularly crucial for KG Airlines, which, as a low-cost carrier, has engaged in code-sharing arrangements with partner airlines on specific routes to meet the rising demand and generate profits.

Maintaining profitability in the market-driven passenger ticket fare environment requires KG Airlines to focus on driving cost efficiency. Consequently, the airline has observed a gradual depletion of its cash reserves due to these factors.

Operational Highlights of KG Airlines

Particulars	FY 2023	FY 2022
Available Seat Kilometers (ASK) (in million)	1,14,000	70,400
Revenue Passenger Kilometers (in million)	94,000	52,000
Passenger Load Factor (%)	82.45%	73.86%
Cost per Available Seat Kilometer (CASK)	4.85	4.65
Revenue per Available Seat Kilometer (RASK)	4.80	3.70
Passenger traffic	90 million	75 million
Average % of scheduled flights cancelled *	1.00%	0.45%
On Time Performance (OTP)** in %	88%	80%
Number of unresolved customer complaints	10	4

*Reasons for increase in flight cancellation were primarily on account of mechanical faults and software glitches that need to be fixed along with unavailability of spare parts. In addition to technical and commercial reasons for cancellations, flights were also cancelled due to non-availability of requisite staff, particularly pilots and cabin crew. The staff attrition rate at KG Airlines has increased from 10% in 2022 to almost 15% this year. HR exit interviews have indicated that low pay scales as compared to market rates, combined with long work hours, are the primary reason for employee attrition.

Whenever a flight is cancelled, the airline has to arrange for an alternate flight or provide a refund to the passenger. In exceptional cases, compensation may have to be paid to the passenger.

** On Time Performance (OTP) is compiled at four metro airports Mumbai, Delhi, Hyderabad, and Bangalore. For delays beyond 2 hours, airlines have to pay compensation ranging from ₹ 5,000 to ₹ 20,000 for domestic flight.

Turnaround time is the time between aircraft landing and take-off. The turnaround process is a joint effort of both the ground team and the flight crew. Besides loading and unloading of passengers, aircrafts are cleaned, inspection and maintenance work is carried out. Aircrafts are also refuelled during this time. The average turnaround time is approximately 1 hour for each aircraft. A fast turnaround time ensures that the aircraft is available for the next travel leg quickly, thereby improving asset utilization. Hence, efficiency in these operations will impact revenue generation. Faster the turnaround time of planes on the ground better the prospects for revenue generation.

At the same time, in the pursuit of fast turnaround time, it is critical not to compromise on aircraft safety. Incidents related to safety issues are taken seriously not just by the company but also by the Director General of Civil Aviation (DGCA), the regulatory authority in India. Hence, safety record is also paramount to business operations.

An analysis at KG Airlines of the recent reports for delays in turnaround time and safety incident records has indicated a shortage of technical staff to inspect, detect and report faults in aircraft. The existing staff is overworked. Hence, KG Airlines plans to hire additional 100 engineers across India who can be trained at their internal training department.

As mentioned above, the number of passengers flown by KG Airlines have grown from 75 million in 2022 to 90 million in 2023. Until now there have been only few airlines within the civil aviation industry in India. KG Airlines has managed to capture majority of the traffic in certain routes. However, with the expected potential for growth within the industry, there may be more airlines that may be able to operate in these routes. Therefore, it is very important for KG Airlines to perform efficiently and manage its routes effectively.

Fare Structure in Airline Operations

A ticket worth ₹ 10,000 is sold at 5% discount per passenger. GST rate @5% is collected on this sale. Aviation security fee is charged at ₹ 500 per passenger and user development fee is charged at ₹ 250 per passenger. Airlines collect the aviation security fee from passengers when they book their tickets. This is passed to the government. This fee is used to fund the security arrangements at airports around the country. User development fee or Passenger service fee are levied by the airline when passengers book the ticket. They are then

passed onto the airport operator like the government owned Airport Authority of India (AAI) or to other private operators who have the license to operate the airport. In return for this collection service the airline is compensated at the rate of ₹ 5 per passenger from whom these fees are recovered.

The financial statements of KG Airlines are prepared in accordance with the Indian Accounting Standards (Ind AS). This commitment to compliance is evident in the extracts extracted from 'Management's Responsibility for Financial Statements,' which are provided in Annexure-B.

Strategy

To operate as a low cost, high efficiency airline, KG Airlines has the following strategy in place:

Fleet management: The fleet will be of single type of aircraft to reduce maintenance and operational costs. Planes will be leased rather than bought outright. Economy seat will be the only seat class offered.

Building digital capabilities: Digitalize processes to make them efficient, error free and cost effective. KG Airlines already has an online booking and check in system in places. It plans to encourage passengers to utilize these tools to plan their travel. These measures will reduce reliance on human intervention and can help rationalize cost. Human resources freed up from digitalization can be used for other value adding activities. Also, commission paid to travel agents can be saved by introducing online booking services. Digitalizing processes can also aid the company's capabilities to scale up its operations in future. While the digitalization of processes brings significant benefits, scheduled maintenance activities remain crucial for ensuring the efficiency and safety of airline operations.

Ancillary services: Inflight entertainment, food and beverage will be charged extra and not included in the ticket cost. KG Airlines aims to generate additional revenue through an attractive choice of in-flight entertainment, food and beverage based on popular demand. For this, it can partner with renowned in-flight service providers as well as food and beverage suppliers who can cater to wide range of customer preferences. By charging premium rates for these ancillary services, KG Airlines can improve its revenue yield.

Managing customer loyalty: KG Airlines' management is keen on getting recognition by winning high profile awards for its various services as well as

by getting above average ratings from various rating agencies. On time performance, customer satisfaction, value for money are criteria which are considered for awards and ratings.

The management has realized that value for money is partly driven by the redemption choices that customer loyalty programs offer. If passengers are allowed to redeem reward points towards another flight ticket, it takes away the opportunity to earn regular revenue. This is because, a seat in a flight has to be offered at a discounted rate while outside this program it would have earned the regular full ticket revenue. On routes that have a high passenger traffic, this would be a source of loss of regular revenue to the airline.

At the same time attractive loyalty reward programs are the best way to build and retain customer bases. While reward points are being granted, it was found that passengers were not completely satisfied with the range of choices offered for redemption. There has been huge number of unredeemed reward points. To bring a quick churn in redemption of reward points, thereby increasing customer satisfaction, KG Airlines plans to partner with stores in the airport which can accept passenger loyalty points. The passenger can redeem points from the program at these stores and get good value for money. At the same time, KG Airlines does not compromise on avenues to earn entire ticket fare of a seat.

Workforce management: High attrition rate of 15% is impacting operations. HR exit interviews indicate long work hours, low pay scale and lesser opportunities for career growth as primary reasons for high attrition. KG Airlines plans to have tie ups with training colleges and other technical institutes where technical staff and crew members can be trained in the latest developments in aviation. This will allow for personnel growth and improve staff morale. Attractive pay package, reward and recognition programs based on performance track record is being worked out to curb attrition. Improve amenities like staff mess, transportation from work to home, recreation rooms, off-site team building events are being planned out.







Performance Measurement System




The management has recognised that, with an increase in size and scale, the need arises to develop and align resources (people, technology, and processes) to deliver on the three reassurances provided to customers, which are stated above. In the highly competitive airline industry, the top

management of KG Airlines desires a comprehensive view of its business regularly. Hence, they have adopted the Balanced Scorecard to access to information in a crisp and concise manner.

Given the challenges of rising costs, decreased profit margins and other business uncertainties, the airline aims to adopt "operational efficiency and performance" as its strategic theme for the coming years. A Balanced Scorecard is being prepared to understand the current performance across the four perspectives: financial, customer, internal business processes, and learning & growth.

Annexure-A: Board of Directors

 Jai Kumar, Chairman and Non-Executive Independent Director	A business leader, technocrat and academic, having worked in Australia, Europe, and Asia through a career spanning over 30 years.
 Ana Maria, Non-Executive Independent Director	With more than 25 years of extensive experience, Ana holds the position of Managing Partner at a renowned law firm. Her broad and varied representation of public and private corporations, alongside other entities, before various National Courts, Tribunals, and Legal Institutions has earned her acclaim on both national and international fronts.
 K. Srinath, Non-Executive Independent Director	Srinath, who founded a technology company during his early twenties, has a track record of developing numerous successful businesses. In 2021, he sold his business interests and was later invited to serve as a non-executive board member for KG in 2022.
 Krishna Gupta, Promoter and Managing Director	Krishna is also the Group Managing Director of KG Partners. He holds a degree in electrical engineering from the MIT.
 M. Sridharan, Non-Executive Director	Sridharan, currently serving as a Governance Consultant, brings extensive experience collaborating with government, regulatory bodies, investment institutions, and banks.
 Harsh Mittal, Non-Executive Director	Harsh, is a fellow member of the Institute of Chartered Accountants of India and is a graduate in Economics from Delhi University.

 Markus J., Non-Executive Director	Markus, an aviation industry veteran, with an illustrious career spanning over 36 years.
 K.B. Chakraborty, Independent Director*	K.B. had a successful career as a marketing executive, serving as Marketing Director of a major quoted engineering company until he retired in 2015. K.B. is fellow of CSEP. He is also an Independent Director on the Boards of several companies.
 Ravi Kishan (Retd.)	Ravi trained as a commercial pilot. He flew long-haul flights with a major airline for much of his career, before being promoted to chief pilot. He retired from flying in 2022. He was then invited to join KG's Board.

*K.B. was appointed as a casual vacancy director on 3rd September 2023. His appointment was subsequently approved by the members in the immediate next general meeting.

Annexure-B: Extracts from Management's Responsibility for Financial Statements

The Company's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these individual financial statements that give a true and fair view of the financial position, financial performance, ----- in accordance with the Ind AS and other accounting principles generally accepted in India. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the company and for preventing and detecting frauds and other irregularities----- relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Multiple Choice Questions

(Provide the correct option to the following questions)

- 1.1** Aircrafts operated by KG Airlines, whether owned or leased require periodic maintenance. These are high value costs. As of the reporting date, provisions need to be made for these expenses based on number of variable factors and assumptions, likely utilization of the aircraft, expected cost of these high value maintenance on a future date, condition of the aircraft engine etc. Due to the complexity and subjectivity of these conditions, auditors rely on management

judgement in order to quantify the amount of provision to be made. This would be an example of which type of risk in a statutory audit:

- (a) Inherent risk
- (b) Control risk
- (c) Detection risk
- (d) Contract risk

- 1.2** The Cashier committed fraud and absconded with the proceeds. The Chief Accountant was unaware of when the fraud occurred. During the audit, the auditor failed to discover the fraud. However, after completion of the audit, the Chief Accountant discovered the fraud, and an investigation indicated that the auditor did not exercise proper skill and care, performing the work in a desultory and haphazard manner.

Which of the following statements accurately characterize the situation and the subsequent action:

- (i) The auditor exhibited due diligence and careful conduct
- (ii) Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240 are relevant in this situation
- (iii) The auditor failed to plan and perform the audit with an attitude of professional skepticism
- (iv) A Chartered Accountant in practice will be deemed guilty of professional misconduct based on clause (7) of Part II of the second schedule to Chartered Accountants Act, 1949

Options

- (a) Only (iv)
 - (b) Both (ii) & (iv)
 - (c) Both (ii) & (iii)
 - (d) Both (i) & (iii)
- 1.3** KG Airlines has decided to remove of expiration date on the frequent flyer miles. It has done this to improve customer satisfaction of its flyers. Using the Kano Model, which of the following attributes of the Kano Model does this pertain to:

- (a) Threshold attribute
- (b) Performance attribute
- (c) Reverse quality
- (d) Delight attribute

1.4 Assuming that Mr. Stephen is eligible to be appointed as a director. In line with requirements, KG Airlines aimed to fill up the vacancy caused by resignation of Mr. K.B. Chakraborty by nominating Mr. Stephen as an Independent Director. However, Mr. Ravi Kishan, a Board Director objected, contending that Mr. Stephen lacks eligibility for the Board position due to already occupancy of a position of independent director in 3 listed entities. Evaluate Mr. Ravi's claim regarding Mr. Stephen's suitability for the position of Independent Director on the Board.

- (a) Yes, contention of Mr. Ravi Kishan is correct regarding Mr. Stephen that he is ineligible to be appointed being Independent Director in already 3 listed entities. Mr. Stephen cannot be appointed in KG Airlines.
- (b) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen's appointment as he eligible to be appointed in maximum twenty companies. Mr. Stephen can be appointed in KG Airlines.
- (c) No, contention of Mr. Ravi Kishan is not correct regarding Mr. Stephen's appointment as he eligible to be appointed in maximum ten public companies. Mr. Stephen can be appointed in KG Airlines.
- (d) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen's appointment, as he eligible to be appointed in maximum seven listed entities. Mr. Stephen he can be appointed in KG Airlines.

1.5 Given are few parameters that need to be considered while using Porter's Five Forces Model. Match the parameter to the appropriate category of the model:

Parameter	Porter's Five Forces
a. Congestion in airports due to non-availability of parking space.	i. Threat of substitutes
b. Reduced need to travel due to remote working capabilities	ii. High supplier power
c. Low switching costs to choose between airlines	iii. Threat of new entrants
d. Favourable government policies towards investments in aviation sector	iv. High customer power

Options




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

Descriptive Questions

- 1.6** CONSTRUCT a Balanced Scorecard table for KG Airlines, identifying two goals along with corresponding performance measures for each perspective. EVALUATE the relevance of these goals and performance measures to KG Airlines.
- 1.7** On 19th October 2023 Mr. K.B. resigned after working about 45 days as a director. The Board wishes to fill up the said vacancy by appointing Mr. Stephen in the capacity of independent director in the forthcoming meeting of the Board. The Board Meeting is scheduled on 31st December 2023.
- (a) ADVISE the Board, keeping in view the provisions of the Companies Act, 2013, with respect to appointment of Mr. Stephen.
 - (b) FIND the maximum time period within which the proposed appointment of Mr. Stephen can be made in the company.

- 1.8** To recognize ticket sales from the flights KG Airlines operates, you are required to answer the following questions:
- DETERMINE the transaction price of KG Airlines in the given case, as per Ind AS 115. How should it recognize revenue of tickets related to scheduled future flights?
 - Does KG Airlines have to pay GST on airport levies like user development fee, passenger service fee, etc. collected from the passengers? Briefly DISCUSS.
 - Does KG Airlines have to pay GST on the collection charges of ₹ 5 charged for the collection service provided by the airline to the airport operators? Briefly DISCUSS.

Case Study-2

About Case Study	
 Industry	Steel
 Subjects	Financial Reporting, Direct Tax, Corporate and Economic Laws, Indirect Tax, Advanced Auditing, Assurance and Professional Ethics
 Topics	Section 92CE of the Income-tax Act, 1961, Section 188 of the Companies Act, 2013 along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014, Provisions of the FCRA, 2010, SA 540, SA 320, Ind AS 20.

Para 1

Yantra Pedasu Ltd. (YPL) is an unlisted public company, incorporated since 2005, engaged in the steel business, with nine directors on its board. There is a company in Singapore named, SYD Pte Ltd. (SPL) in which it acquired 54% stake during financial year 2022-23 and thereby it became its first subsidiary company. Mr. Sunil Verma has been appointed for the second consecutive term of five years as the managing director of YPL. He has a daughter named, Mrs. Sunita, who is residing in Singapore since last 6 years and she was appointed as the director in SPL, during financial year 2023-24, at a monthly remuneration of SGD 60,000 equivalent to ₹ 3 lakhs.

Para 2

For financial year 2023-24, YPL appointed Chappan & Co. as its statutory auditors in place of its previous auditors. All the formalities as prescribed by section 139 & 140 of the Companies Act, 2013, were complied with by YPL in relation to such appointment. Also, Chappan & Co. made a written communication vide a registered post acknowledgment due to the previous auditor before accepting such appointment.

CA. Kailash Chappan, one of the senior partners of the firm was appointed as the engagement partner by Chappan & Co. on such audit assignment of YPL. While conducting the audit of YPL, CA. Kailash observed that there were certain accounting estimates made in relation to certain items of financial statements that might give rise to significant risks and thereby he performed substantive procedures in accordance with the requirements of SA 330, "The Auditor's Responses to Assessed Risks".

Further, CA. Kailash determined that there were certain factors that indicated the existence of certain transactions entered into by YPL for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements and accordingly, CA. Kailash lowered his materiality level determined for such transactions.

Apart from conducting the audit assignment, Mr. Kailash also used to solve the concerns raised by the accountant of YPL with respect to GST and Income tax matters. One such concern raised by the accountant to him was with respect to ITC availment under GST, which is briefed as under:

'The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000. The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000 and the output tax liability for the month of May was for ₹ 110 lakhs. So, he was not sure about the amount of ITC to be availed for the month of May for which he consulted CA. Kailash and after following his advise, the GST liability for the month of May was discharged by YPL fully through its balance in electronic credit ledger only.

Para 3

YPL provides donation every year as a part of its CSR activities to a charitable trust named Shiksha Kalyan Trust (SKT) engaged in activities of providing education to poor children. The average net profit of YPL for the past three years was ₹ 88 crore. Accordingly, during current financial year i.e. during F.Y. 2023-24, it made a donation of ₹ 2 crore to SKT as its CSR spend. SPL, its subsidiary company also proposed to make donation to such trust in India during the same financial year. However, SKT's certificate of registration under the Foreign Contribution (Regulation) Act, 2010, would expire on 20th December, 2023 and it had not applied for renewal of certificate before that as the Head accountant believed that they could apply for renewal of registration within one year from the expiry date as per the law and hence pending but the trustees decided to make an application for renewal for certificate sooner so that the trust can accept donation from SPL and the same was done as per the relevant legal provisions.

Para 4

YPL bought a machinery from Dusham Ltd. for its business for which YPL received a government grant of ₹ 6 lakhs, the details of machinery are as follows:

Particulars	(₹)
List price of machinery (exclusive of taxes and discount)	30,00,000
Corrugated Boxes used for packing the equipment (not included in price above)	60,000
Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine)	-

As a part of its policy, YPL depreciates all its plant and machinery at 20% per annum on straight-line basis and also it does not claim depreciation on GST component included in the price of plant and machinery.

Para 5

On 24th January, 2024, YPL supplied 2000 MT steel pipes to SPL @ ₹ 1 lakh/ MT on CIF basis. Insurance and Freight of ₹ 11,000/ MT were included in it. Also, on 5th February, 2024, it made a supply of 3000 MT steel pipes to another Singapore based company, Unno Pte Ltd. (UPL) @ ₹ 95,000 / MT on

FOB basis for which payment was to be made of SGD 5,70,00,000 in 3 months and so in order to protect itself from exchange rate fluctuations, YPL hedged receipt of such foreign currency in the forward market.

Multiple Choice Questions

(Provide the correct option to the following questions)

- 2.1** With reference to the information given under Para 5, what amount of additional tax needs to be paid by YPL if it does not want to repatriate the excess money with respect to supply of steel pipes to SPL?
- (a) ₹ 22,46,400
 - (b) ₹ 25,15,970
 - (c) ₹ 31,20,000
 - (d) No need to pay additional tax as the amount of primary adjustment does not exceed the prescribed limit.
- 2.2** With reference to the information given under Para 1, whether any formalities would have been complied by YPL with respect to appointment of Mrs. Sunita as a director in SPL?
- (a) No, as such appointment did not amount to appointment of Mrs. Sunita to an office or place of profit in SPL.
 - (b) Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.
 - (c) No, as even though Mrs. Sunita was a related party to YPL but she would be drawing remuneration from SPL, its subsidiary company and not YPL, itself.
 - (d) No, as such provisions with respect to related party are not applicable in relation to a foreign subsidiary company.
- 2.3** With reference to the information given under Para 2, how much balance in electronic credit ledger would have been available with YPL after discharging its GST liability for May month for which Mr. Kailash was consulted?
- (a) ₹ 11,60,000

- (b) ₹ 7,10,000
- (c) ₹ 8,80,000
- (d) ₹ 28,75,000

2.4 With reference to the information given under Para 3, till what time period, SKT had to make an application for renewal of its certificate so that it might be accepted and the application should have been accompanied with what amount of fees?

- (a) Such application needs to be made within 3 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.
- (b) Such application needs to be made within 6 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.
- (c) Such application needs to be made by 31st March, 2023 and the total fees payable with such application shall be ₹ 1,500.
- (d) Such application needs to be made by 20th December, 2024 and the total fees payable with such application shall be ₹ 6,500.

2.5 With reference to the information given under Para 4, what shall be the value of supply for the machinery supplied by Dusham Limited to YPL?

- (a) ₹ 30,60,000
- (b) ₹ 25,00,000
- (c) ₹ 35,00,000
- (d) ₹ 30,00,000

Descriptive Questions

2.6 With reference to the accounting estimates (given under Para 2) that might give rise to significant risks, what Mr. Kailash should have evaluated in addition to performing procedures as per SA 330?

2.7 With reference to the information given under Para 2, what kind of factors might be there that would have indicated existence of certain transactions entered into by YPL for which Mr. Kailash was required to lower his materiality?

- 2.8** With reference to the information given under Para 4, show the statement of profit and loss and balance sheet extracts in respect of the grant received by YPL for first year under both the methods as per Ind AS 20?



SUGGESTED ANSWERS/HINTS

- 1.1 The correct answer is – (a) Inherent risk.**

Reason: Inherent risk is the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements. Provision for high value maintenance cost is dependent on complex and subjective conditions. The provision is based on the management's judgement. If any assumption or judgement is incorrect, the risk of material misstatement is high. This is an inherent risk.

- 1.2 The correct answer is – (c) Both (ii) & (iii).**

Reason: In the given case, in the course of audit, auditor failed to discover the fraud. It is clearly given that investigation indicated that the auditor did not exercise reasonable skill and care and performed his work in a casual and unmethodical manner.

According to Clause (7) of Part I of Second Schedule of Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he "does not exercise due diligence or is grossly negligent in the conduct of his professional duties".

As per SA 240, "The auditor's responsibilities relating to fraud in an audit of financial statements", it can be concluded that the auditor did not plan and perform the audit with an attitude of professional skepticism. Thus, having regard to this and a fraud has actually taken place during the year, committed by the absconding cashier, it is reasonable to think that prima facie there is a case against the auditor for gross negligence.

From the facts given in the case and by applying Clause (7) of Part I of Second Schedule to Chartered Accountants Act, 1949 and SA 240, it is clear that the auditor is guilty of professional misconduct.

1.3 The correct answer is – (d) delight attribute of the Kano Model.

Reason: In general, frequent flyer miles have expiration dates, before which they can be redeemed. Removal of this expiration date is something that customers/ flyers would not be expecting.

1.4 The correct answer is – (d) No, contention of Mr. Ravi Kishan is incorrect regarding Mr. Stephen's appointment, as he eligible to be appointed in maximum seven listed entities. Mr. Stephen can be appointed in KG Airlines.

Reason: As per Regulation 17A of the SEBI (LODR) Regulations 2015, the directors of listed entities shall with respect to the maximum number of holding of directorships, can be at any point of time, be not more than seven listed entities. Provided that a person shall not serve as an independent director in more than seven listed entities.

Notwithstanding the above, any person who is serving as a whole time director/managing director in any listed entity shall serve as an independent director in not more than three listed entities.

1.5 The correct answer is (a) a- ii, b- i, c- iv and d- iii

Reason: Congestion in airports due to non-availability of parking space → High supplier power.

Reduced need to travel due to remote working capabilities → Threat of substitutes.

Low switching costs to choose between airlines → High customer power.

Favourable government policies towards investments in aviation sector → Threat of new entrants.

1.6 Balanced Scorecard Table for KG Airlines, a low-cost high efficiency airline –

Perspective	Strategic Objective	Measure	Relevance to KG Airlines
Financial Perspective	Goal-1 To lower costs, improve cost structure, and increase	<ul style="list-style-type: none"> ▪ Lease Cost per annum ▪ Maintenance Cost per annum 	Input Costs like cost of fuel, leasing and labour form a major portion of operating expenses. To <i>navigate the volatility of fuel prices</i> , the airline must

	asset utilization	<ul style="list-style-type: none"> Cost per Available Seat Kilometer (CASK) Cost per Available Seat Kilometer - Ex Fuel (CASK-Ex) 	<p>vigilantly monitor and proactively secure competitive rates for procurement, utilizing financial instruments to hedge against exposure.</p> <p>In pursuit of its expansion project, KG Airlines has chosen to lease planes, deeming it a more viable option given the airline's low cash reserves. Nevertheless, opting for an outright purchase, although more cost-effective in the long run, involves a significant upfront expenditure or necessitates debt servicing for acquisition.</p> <p>CASK is currently ₹ 4.83 and likely to increase unless KG Airlines manages its cost structure efficiently. To achieve this efficiency, the airline is focusing on eliminating non-value-adding costs. This includes standardizing seats, exploring e-commerce channels, and charging customers separately for extra amenities like in-flight entertainment. Furthermore, KG Airlines has standardized planes that it operates in order to reduce operational costs like maintenance costs.</p> <p>KG Airlines' strategy is to win market through cost leadership. Hence, maintaining a lower cost structure is paramount importance to the airline.</p>
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	<p>Goal-2: To boost revenue and broaden revenue streams</p>	<ul style="list-style-type: none"> Revenue per average seat kilometre (RASK) % revenue generated from ancillary activities % revenue generated from new routes 	<p>KG Airlines wishes to build a loyal customer base by offering affordable ticket rates priced attractively in this competitive market. This will be possible only if costs can be managed efficiently. The RASK is currently at ₹ 4.80, which is lower than CASK ₹ 4.85. This implies that the airline is not making sufficiently money to cover its costs. Therefore, the airline should <i>pass on some of the increase in costs to the passenger without impacting demand.</i></p> <p>Simultaneously, it should monitor and enhance the profitability of its current customer base. <i>Route planning should be done to optimize revenue generation.</i> This will require KG Airlines to explore opportunities to improve revenue streams (eliminate unprofitable routes, determine new routes, markets and code sharing partners, refer internal perspective).</p> <p>Moreover, KG Airlines can improve the value provided to customers by <i>enhancing ancillary services</i>, including inflight entertainment, food and beverage offerings, and the sale of mementos, among others. This would make the overall bundle more appealing and potentially increase ancillary income.</p>
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Customer Perspective	Goal-1: Customer retention, new customer acquisition	<ul style="list-style-type: none"> Number of repeat customers Number of high-profile awards won/ Latest rankings Number of new customers 	<p>Implementing a robust Customer Relationship Management (CRM) system is crucial for managing the number of repeat customers. Attractive customer loyalty programs with different redemption options play a key role in retaining the customer base. Customers will be motivated to travel again with KG Airlines to earn enough points for redemption. Moreover, KG Airlines's plan to bring higher churn in redemption of reward points by partnering with airport stores is a win-win strategy to ensure customer satisfaction while maintaining profitability.</p> <p>In addition, enhancing the brand image through winning high-profile awards for various services and securing above-average ratings from rating agencies contributes to both retaining and expanding the customer base.</p> <p>Besides, offering better connectivity through route planning at attractive prices will help to grow market share and acquire newer customers.</p>
	Goal-2: Customer Satisfaction	<ul style="list-style-type: none"> Number of flights cancelled 'On time performance' (OTP) statistics 	<p>Average % of scheduled flight cancelled increased from 0.45% in 2022 to 1% in 2023. This impacts customer satisfaction. Despite this challenge, OTP statistics has shown improvement in 2023 compared</p>

		<ul style="list-style-type: none"> Compensation for flight delays and cancellations Unresolved customer complaints 	<p>to the previous year. Improving On-Time Performance is essential to enhance customer experience and satisfaction.</p> <p>However, it is necessary to keep compensation for flight delays and cancellations at minimum. Building robust capabilities in operations will reduce instances of cancellation and delays.</p> <p>Moreover, unresolved customer complaints have become important concerns that demand attention from higher management. The volume of these unresolved complaints has seen an increase in 2023.</p> <p>Integrating these initiatives into a holistic approach is crucial for ensuring a positive overall customer experience and satisfaction.</p>
Internal perspective	Goal-1: Flight Operations (Cycle time optimization)	<ul style="list-style-type: none"> 'On the ground' (turnaround) time No. of instances of serious lapses in flight safety Maintenance frequency rate 	<p>Fast and efficient turnaround times are critical for asset utilization to generate revenue. At the same time, flight safety is paramount to running airline operations. KG Airlines has a responsibility towards the society to ensure that safety standards are met. Given that the number of flights is likely to increase from the current number of 310 and passenger traffic is expected to rise, any incidents of flight safety concerns must be given high priority and resolved effectively.</p> <p>To address this, increasing capacity of on- ground technical</p>

			staff by KG Airlines, such as hiring additional 100 engineers, will help to improve flight operations.
	Goal-2: Digitalisation (to develop the online booking & check-in system)	<ul style="list-style-type: none"> Ratio of online booking vs. booking through travel agents Percentage downtime of website 	<p>Online booking and check-in capability will improve business operations efficiencies.</p> <p>To ensure effectiveness, digital capabilities must be able available at all times to the customers. Therefore, downtime has to be reduced.</p> <p>Given that KG Airlines expects passenger traffic to grow in the coming years, digitalizing can help it scale up operations.</p> <p>Furthermore, Digitalizing can also help rationalize operational costs. This is because it frees up personnel for value additive tasks and saves commission that need to be paid to travel agents (financial perspective).</p>
	Goal-3: Route Network Redesign	<ul style="list-style-type: none"> Passenger Load Factor Number of Routes expected to be withdrawn (loss making) Number of New Routes % of Load for New Route Time period to break-even 	<p>To foster additional growth, the airline can redesign its network and may also explore potential regional routes and engage in code-sharing partnerships with other airlines.</p> <p><u>Shortage of aircrafts, high lease rental and other operational costs need to be considered</u> while determining route network.</p>
Learning & Growth	Goal-1: Staff Motivation	<ul style="list-style-type: none"> Staff attrition rate 	<p>KG Airlines should allow for personal growth of employees to combat staff attrition and</p>

	and Loyalty	<ul style="list-style-type: none"> ▪ Staff absentee rate ▪ The number of days absent per employee ▪ Employee Feedback Score 	<p>staff absenteeism. Staff attrition rate increased from 10% to 15% this year.</p> <p>To mitigate concerns related to dissatisfaction arising from prolonged work hours and a perceived low pay scale, implementing <u>a diverse approach can be important.</u></p> <p>Firstly, adopting a <i>performance-based attractive pay package</i> can serve as a powerful motivation, aligning financial rewards with individual and team accomplishments.</p> <p>Secondly, <i>creating a workplace environment with ample amenities</i>, favourable to employee well-being, further contributes to job satisfaction by addressing the physical and mental aspects of the work experience.</p> <p>Thirdly, <i>incorporating team-building exercises</i> can enhance collaboration, and overall workplace synergy, helping mitigate the challenges associated with extended work hours.</p>
	Goal-2: Functional excellence and Leadership skills	<ul style="list-style-type: none"> ▪ Strategic Skill Ratio ▪ Number of days' training per ground crew member ▪ Number of training programs 	<p><i>KG Airlines should improve and maintain its strategic skill ratio</i> (a metric that quantifies the proportion of strategic skills possessed by a workforce in comparison to the entire skill set) through training and development programs.</p> <p><i>If ground crew are better trained or multiskilled</i>, they</p>

			<p>can reduce the number of minutes that the plane stays on the ground, which will result in fewer planes being required and therefore lower costs.</p> <p><i>Tie up with institutes for training on latest developments in aviation and other programs</i> will allow for personal growth and career development. This will retain skilled high performing staff.</p>
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Two goals, each with two corresponding performance measures, are sufficient. Additional performance measures have been included to ensure comprehensive coverage across various scenarios.

- 1.7** Section 161(4) of the Companies Act, 2013 provides that if the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board which shall be subsequently approved by members in the immediate next general meeting.

Further, any person so appointed shall hold office only up to the date up to which the director in whose place he is appointed would have held office if it had not been vacated.

In view of the above provisions, in the given case, the appointment of Mr. K.B. Chakraborty in place of the deceased director Mr. Rai was in order. In normal course, Mr. Mr. K.B. Chakraborty could have held his office as director up to the date to which Mr. Rai would have held the same.

However, Mr. K.B. Chakraborty resigned on 19th October 2023 and again a vacancy has arisen in the office of director owing to resign of Mr. K.B. Chakraborty who was appointed by the board and approved by

members to fill up the casual vacancy resulting from Mr. Rai's demise. Vacancy arising on the Board due to vacation of office by the director appointed to fill a casual vacancy in the first place, does not create another casual vacancy as section 161 (4) clearly mentions that such vacancy is created by the vacation of office by any director appointed by the company in general meeting. Hence, the Board cannot fill the vacancy arising from the resignation of Mr. K.B. Chakraborty who was appointed to fill as a casual vacancy.

In fact, here the vacancy caused by the resignation of Mr. K.B. Chakraborty will result in an intermittent vacancy. This vacancy can be filled as per Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 read with Section 149(4) of the Companies Act, 2013.

Following are the answers:

- (a) Accordingly, in the light of the said provisions, the Board may however appoint Mr. Stephen as a director in any capacity either independent or non-independent, as an additional director under section 161 (1) of the Companies Act, 2013 provided the articles of association authorise the Board to do so, in which case Mr. Stephen will hold the office up to the date of the next annual general meeting or the last date on which the annual general meeting should have been held, whichever is earlier. His appointment, if required, can be regularised in the subsequent general meeting of the Company pursuant to Section 149 and other related provisions of the Act.
- (b) Whereof, there is an intermittent vacancy of an independent director, it shall be filled-up by the Board at the earliest but not later than immediate next Board meeting or three months from the date of such vacancy, whichever is later.

Here, Board may fill up the vacancy caused by the resignation of Mr. K.B. Chakraborty by appointing Mr. Stephen in the capacity of an independent director within 3 months from date of vacancy (i.e., by 18th of January 2024) or immediate next Board meeting (i.e. 31st December 2023), whichever is later. Hence the maximum

time period within which the proposed appointment of Mr. Stephen can be made is, latest by 18th January 2024.

- 1.8 (a)** Revenue recognition for KG Airlines will be based on Ind AS 115 "Revenue from Contracts with Customers". Paragraph 47 of Ind AS 115, inter alia states that an entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Amounts collected on behalf of third parties are not economic benefits which flow to the entity. Therefore, they are excluded from revenue.

As per Ind AS 115, each booking is a contract that the passenger enters into with KG Airlines. Passenger revenue should be recognized on flown basis i.e., when KG Airlines provides the transportation to the passenger. This is when service is rendered to the passenger. Revenue should be recognized on net of discounts given to the passengers, amount collected on behalf of third parties, applicable taxes, and airport levies such as passenger service fee, user development fee, etc., if any. Fees charged for cancellation of flight tickets are recognised as revenue on rendering of the said service.

Here, the revenue from sale of ticket that should be reflected in the Statement of profit and loss of KG Airlines would be ₹ 9,500 which would be the airfare charges of ₹ 10,000 per passenger less 5% discount given to the passenger which is ₹ 500.

Particulars	Amount (₹)
Airfare charges	10,000
Less: Discount @5%	500
Net ticket fare (revenue)	9,500
Add: GST @5% on net ticket fare	475
Add: Aviation security fee	500
Add: User development fee	250
Total amount collected from passenger	10,725

Note: Since, Goods and Service Tax (GST) @5% is payable to the government, it does not form part of revenue. Similarly, aviation security fee and user development fee are payable to the government and airport operator respectively. Here, the airline acts only as an agent to collect the money from the passenger and pass it on to the government or the airport operator. No service is rendered by the airline to the passenger on this behalf. Therefore, no revenue should be recognized for aviation security fee or user development fee by KG Airlines.

However, since the airport operator on whose behalf the user development fee is collected, compensates KG Airlines for ₹ 5 per passenger flown, it would be recognised as revenue in the books of KG Airlines. Hence, the total revenue of ₹ 9,505 would be reflected in the Statement of profit and loss separately as 'revenue from sale of tickets' and 'other operating revenue'.

Revenue from sale of tickets that relate to scheduled future flights will be recognised as "unearned revenue", forming part of current liabilities. Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

- (b) Services provided by an airport operator to passengers against consideration in the form of UDF and PSF are liable to GST. PSF and UDF are levied by the airport operators but are collected by the airlines. These charges are collected by the airline as an agent of passengers and is not a consideration for any service provided by the airlines.

Thus, the amount so recovered by airlines will be excluded from the value of supplies made by the airline to its passengers. In other words, the airline shall not be liable to pay GST on the PSF and UDF (for airport services provided by airport operator), provided the airline satisfies the conditions prescribed for a pure

agent under Rule 33 of the CGST Rules, 2017. It is the airport operator which is liable to pay GST on UDF and PSF.

The airline should separately indicate actual amount of PSF and UDF and GST payable on such PSF and UDF by the airport operator, in the invoice issued by airlines to its passengers.

Thus, KG Airlines is not liable to pay GST on airport levies like user development fee, passenger service fee, etc. collected from the passengers.

- (c) Yes, KG Airlines is liable to pay GST on the collection charges of ₹ 5 charged for the collection service provided by the airline to the airport operators. The collection charges paid by airport operator to airlines are a consideration for the services provided by the airlines to the airport operator and KG Airlines shall be liable to pay GST on the same.

2.1 The correct answer is (b) ₹ 25,15,970.

Reason: As per section 92CE of the Income-tax Act, 1961, the assessee is required to carry out secondary adjustment where the primary adjustment to transfer price exceeds Rs. 1 crore and primary adjustment is made in respect of A.Y. 2017-18 and onwards. Where, as a result of primary adjustment to the transfer price, there is an increase in the total income of the assessee, the excess money or part thereof which is available with the AE needs to be repatriated.

In a case where the excess money or part thereof has not been repatriated within the prescribed time, the assessee has the option to pay additional income-tax @ **20.9664%** (i.e., tax @ 18% **plus** surcharge @ 12% **plus** cess @ 4%) on such excess money or part thereof, as the case may be.

YPL and SPL are associated enterprise since YPL is the holding company of SPL. As the similar goods were sold by YPL to UPL, an unrelated party, CUP method can be applied for determining the ALP. While applying the Comparable Uncontrolled Price (CUP) method, the price in comparable uncontrolled transaction needs to be adjusted to account for difference, if any, between the international transaction and uncontrolled transaction and the price so adjusted shall be the ALP.

Hence, the ALP of steel pipes would be:

	(₹)
Price per MT of steel pipes to UPL	95,000
Add: Cost of insurance and freight per M.T.	11,000
Arm's length Price per M.T.	1,06,000

Primary adjustment needs to be made to the total income of YPL for P.Y. 2023-24, which shall be $2000 \text{ MT} \times (\text{₹ } 1,06,000 - \text{₹ } 1,00,000) = \text{₹ } 1,20,00,000$.

Here, the amount of primary adjustment is ₹ 120 lakhs (as calculated above). Accordingly, the amount of additional tax that needs to be paid by YPL would be $\text{₹ } 120 \text{ lakhs} \times 20.9664\% = \text{₹ } 25,15,970$ (rounded off) if it does not want to repatriate the excess money with respect to supply of steel pipes to SPL.

- 2.2 The correct answer is (b)** - Yes, as Mrs. Sunita was a related party to YPL and she would be drawing a monthly remuneration exceeding ₹ 2.5 lakhs in its subsidiary company.

Reason: Section 188 of the Companies Act, 2013, along with Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 contain provisions which regulate 'related party transactions'. Further, Section 2(76) of the Act defines who is a 'related party'.

As per Section 2(76), 'related party', with reference to a company, means a director or his relative;

Where the transaction or transactions to be entered into as contract or arrangement is for **appointment to any office or place of profit in the company**, its subsidiary company or associate company at a monthly remuneration **exceeding ₹ 2.5 lakh as mentioned in clause (f) of sub-section (1) of Section 188**, approval by an ordinary resolution is required.

The expression "office or place of profit" means any office or place –

- (1) where such office or place is held by a director** - if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is

entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

- (2) **where such office or place is held by an individual other than a director or by any firm, private company or other body corporate** - if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise.

Mrs. Sunita, was the relative of a director of YPL and she was appointed as the director in its subsidiary company, SPL, at a monthly remuneration of ₹ 3 lakhs during F.Y. 2023-24, the remuneration of which she was entitled to as a related party to the director of YPL holding a place of profit in SPL as its director and no information is given that anything over and above such remuneration was paid or to be paid her. Accordingly, such appointment of her would amount to appointment to an office or place of profit in SPL w.r.t. YPL and accordingly, the required formalities would need to be complied with by YPL with respect to such appointment of Mrs. Sunita as a director in SPL, i.e. this contract shall be entered into with the prior approval of the company (YPL) by passing an ordinary resolution.

2.3 The correct answer is (b) - ₹ 7,10,000.

Reason: ITC on all invoices/debit notes which are uploaded by the suppliers in their GSTR-1s can be availed in full. The recipient gets details of tax invoices and debit notes uploaded by the suppliers in their GSTR-1s, in his (recipient's) GSTR-2B.

However, in respect of invoices/debit notes the details of which are not uploaded by the suppliers in their GSTR-1s (and hence cannot be seen in GSTR-2B of the recipient), ITC cannot be availed in terms of Rule 36(4) of CGST Rules, 2017.

The balance of ITC with YPL after discharging the GST liability for April month was ₹ 60,00,000.

The eligible ITC reflected in GSTR-2B with respect to May month of YPL was ₹ 56,00,000 whereas the input tax paid by it on invoices received during the May month was ₹ 75,00,000.

Thus, total ITC available for discharging liability for May month = ₹ 60,00,000 + ₹ 56,00,000 = ₹ 1,16,00,000 and the output tax liability for May month for ₹ 110 lakhs. So, the balance in electronic credit ledger that would have been available with YPL after discharging its GST liability for May month would be ₹ 1,16,00,000 - ₹ 1,08,90,000 = ₹ 7,10,000

As per rule 86B, where the value of taxable supply (other than exempt supply and zero-rated supply) in a month exceeds ₹ 50 lakh, amount available in electronic credit ledger can be utilized only to the extent of 99% of the output tax liability while discharging such tax liability. Balance 1% of the output tax liability needs to be discharged from electronic cash ledger.

- 2.4** The correct answer is (b) - Such application needs to be made within 6 months before date of expiry and the total fees payable with such application shall be ₹ 5,000.

Reason: As per the provisions of the FCRA, 2010, if the validity of the certificate of registration of a person has ceased in accordance with the provisions of Rule 12, a fresh request for the grant of a certificate of registration may be made by the person to the Central Government as per the provisions of rule 9.

- (1) Period for applying for renewal of certificate:** Every person who has been granted a certificate, shall have such certificate renewed within six months before the expiry of the period of the certificate.
- (2) Filing of an application to CG:** An application for renewal of the certificate of registration shall be made to the Central Government in electronic form in Form FC-3C accompanied with an affidavit executed by each office bearer, key functionary and member in Proforma 'AA' appended to these rules within six months before the date of expiry of the certificate of registration.

Every person seeking renewal of the certificate of registration under section 16 of the Act shall open an FCRA Account and mention details of the account in his application for renewal of registration.

An application made for renewal of the certificate of registration shall be accompanied by a fee of rupees five thousand only, which shall be paid through payment gateway specified by the Central Government.

No person whose certificate of registration has ceased to exist shall either receive or utilise the foreign contribution until the certificate is renewed.

If no application for renewal of registration is received or the application is not accompanied by requisite fee before the expiry of the validity of the certificate of registration, the validity of the certificate of registration shall be deemed to have ceased from the date of completion of the period of five years from the date of the grant of certificate of registration.

SKT's certificate of registration under the FCRA, 2010, was expiring on 20th December, 2023 and they had to apply for renewal of certificate as against what the Head accountant believed. Accordingly, it had to make an application for renewal of its certificate by 20th December, 2023 so that it might be accepted and the application shall be accompanied with fees of ₹ 5,000.

2.5 The correct answer is (d) - ₹ 30,00,000.

Reason:

Computation of value of taxable supply for Dusham Ltd.

Particulars	(₹)
List price of equipment (exclusive of taxes and discount)	30,00,000
Add: Corrugated Boxes used for packing the equipment (refer section 15(2)(c) of the CGST Act, 2017)	60,000
Total	30,60,000
Less: Discount @ 2% is offered on the list price of the machine (recorded in the invoice of the machine) (refer section 15(3)(a) of the CGST Act, 2017)	(60,000)
Value of taxable supply	30,00,000

Note: The government grant has been received by YPL, so there will be no impact on value of taxable supply due to it for Dusham Ltd.

2.6 As per SA 540, 'Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures', for accounting estimates that give rise to significant risks, in addition to other substantive procedures performed to meet the requirements of SA 330, the auditor shall evaluate the following:

- (a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- (b) Whether the significant assumptions used by management are reasonable.
- (c) Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

In the given instance, Mr. Kailash should have evaluated the aforesaid points, in addition to performing procedures as per SA 330.

2.7 As per SA 320, 'Materiality in Planning and Performing an Audit', factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:

- Whether law, regulations or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, and the remuneration of management and those charged with governance).

- The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).
- Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, a newly acquired business).

In the given instance, factors, as aforesaid, might be there that would have indicated existence of certain transactions entered into by YPL for which Mr. Kailash was required to lower his materiality as for such transactions, misstatements of lesser amounts than materiality for the financial statements as a whole could also reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

2.8 (a) When grant is treated as deferred income

Statement of profit and loss – An extract

	(₹)
Depreciation (₹ 30,00,000 x 20%)	6,00,000
Government grant credit (W.N.1)	1,20,000

Balance Sheet - An extract

	(₹)	(₹)
Non-current assets		
Property, plant and equipment	30,00,000	
Less: Accumulated depreciation	(6,00,000)	24,00,000
		????
Non-current liabilities		
Government grant	(4,80,000 - 1,20,000)	3,60,000
Current liabilities		
Government grant		1,20,000
		????

Working Note:

Government grant deferred income account

	(₹)		(₹)
To Profit or loss (6,00,000 × 20%)	1,20,000	By Grant cash received	6,00,000
To Balance c/f	4,80,000		
	6,00,000		6,00,000

(b) When grant is deducted from cost of the asset**Statement of profit and loss – An extract**

	(₹)
Depreciation {(₹ 30,00,000 - ₹ 6,00,000) × 20%}	4,80,000

Balance Sheet - An extract

	(₹)	(₹)
Non-current assets		
Property, plant and equipment (30,00,000 – 6,00,000)	24,00,000	
Less: Accumulated depreciation	(4,80,000)	19,20,000

**Applicability of Standards / Guidance Notes / Legislative
Amendments etc. for May, 2024 Examination
Final Course**

Paper 4: Direct Tax Laws and International Taxation

Applicability of Finance Act, Assessment Year etc. for May, 2024 Examination

The provisions of direct tax laws, as amended by **the Finance Act, 2023** including significant notifications, circulars, press releases issued and legislative amendments made up to **31.10.2023**, are applicable for May, 2024 examination. The relevant assessment year is **A.Y. 2024-25**.

The Study Material for Final Paper 4 based on the provisions of direct tax laws as amended by the Finance Act, 2023, is relevant for May 2024 Examination. The said Study Material comprises of Modules 1 to 4. The Study Material has to be read along with the **Statutory Update** covering notifications and circulars issued upto 31.10.2023 and the **Judicial Update**. Statutory Update and Judicial Update for May, 2024 examination have been webhosted at <https://resource.cdn.icai.org/77984bos62600su.pdf> and <https://resource.cdn.icai.org/77983bos62600ju.pdf>, respectively.

Note - As regards certain topics on International Taxation, namely, Overview of Model Tax Conventions, Application & Interpretation of Tax Treaties, Fundamentals of Base Erosion and Profit Shifting and Latest Developments in International Taxation, the specific content as covered in the Study Material would be relevant for May, 2024 Examination.

Paper 5: Indirect Tax Laws

The following are applicable for May 2024 examination:

- (i) The provisions of the CGST Act, 2017 and IGST Act, 2017 as amended by the Finance Act, 2023 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2023.
- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance Act, 2023, including significant notifications and

circulars issued and other legislative amendments made, which have become effective up to 31.10.2023.

Note - The amendments made by the Annual Union Finance Acts in the CGST Act, 2017, the IGST Act, 2017, the Customs Act, 1962 and the Customs Tariff Act, 1975 are made effective from the date notified subsequently. Only those amendments made by the relevant Finance Acts which have become effective till 31.10.2023 are applicable for May 2024 examination. Accordingly, those amendments made by the Finance Act, 2023 which have become effective till 31.10.2023 are applicable for May 2024 examination.

However, it may be noted that amendments made by the Finance Act, 2023 in sections 9, 9A and 9C of the Customs Tariff Act, 1975 and in section 65 of the Customs Act, 1962 and insertion of new section 65A in the Customs Act, 1962 have not become effective till 31.10.2023 and thus, are not applicable for May 2024 examination. Further, the amendments made by the Finance (No. 2) Act, 2019 in sections 2(4), 95, 102, 103, 104, 105 and 106 of the CGST Act, 2017 and the insertion of new sections 101A, 101B & 101C in the CGST Act, 2017, have not become effective till 31.10.2023 and thus, are not applicable for May 2024 examination.

Further, **since the amendments made by the Central Goods and Services Tax (Amendment) Act, 2023 and Integrated Goods and Services Tax (Amendment) Act, 2023, (enacted as on 18.08.2023) have become effective from 01.10.2023, the same are also applicable for May 2024 examination.**

The Study Guidelines given below specify the exclusions from the syllabus for May 2024 examination.

List of topic-wise exclusions from the syllabus		
(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions (Provisions which are excluded from the corresponding topic of the syllabus)
Part-I: Goods and Services Tax		
(i)	Case studies based on following:	(i) Rate of tax prescribed for supply of goods *

	Levy and collection of CGST and IGST – Application of CGST/IGST law; Concept of supply, inter-State supply, intra-State supply, supplies in territorial waters; Charge of tax including reverse charge; Exemption from tax; Place of supply; Time of Supply; Value of supply; Input tax credit; Computation of GST liability	(ii) Rate of tax prescribed for supply of services* (iii) Exemptions for supply of goods (iv) Value of supply in cases where Kerala Flood Cess is applicable. (v) Manner of determination of input tax credit in respect of inputs, input services and capital goods and reversal thereof in respect of real estate projects (vi) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
(xii)	Other provisions	Transitional Provisions

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

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

The entire content included in the Study Material read with Statutory Update for May 2024 examination shall be relevant for said examination. The amendments in the GST law and in the customs law and FTP - made after the issuance of the Study Material - to the extent covered in the Statutory Update for May 2024 examination alone shall be relevant for the said examination. Statutory Update has been webhosted at the following link:

<https://resource.cdn.icai.org/77980bos62607.pdf>

Though the Statutory Update for May 2024 examination shall provide the precise scope and coverage of the amendments, for the sake of clarity, it may be noted that the amendments made in the various provisions of the GST law for providing relief to the taxpayers of Manipur shall not be applicable for May 2024 examination.

Final Paper 6: Integrated Business Solutions

This paper is a multi-disciplinary case study-based paper involving application of concepts and provisions dealt with in Papers 1 to 5 at the Final level along with Self-paced Modules Set A & B. List of the papers at the Final level and Self-Paced Online Modules is as under –

Final Course	
Paper 1	Financial Reporting
Paper 2	Advanced Financial Management
Paper 3	Advanced Auditing, Assurance and Professional Ethics
Paper 4	Direct Tax Laws & International Taxation
Paper 5	Indirect Tax Laws
Self-Paced Online Modules	
*SET A	Corporate and Economic Laws
SET B	Strategic Cost & Performance Management

Note: The applicability/non-applicability of Standards/ Guidance Notes/ Legislative Amendments etc. for Paper 6: Integrated Business Solutions for May, 2024 Examination would be same as applicable for each of the above individual papers.

*The Study Material has to be read along with the Relevant Amendments covering notifications and circulars issued upto 31.10.2023 for May 2024 examination