

**FINAL COURSE**  
**GROUP – II**

**REVISION TEST PAPERS**

**SEPTEMBER, 2025**



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

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Edition	:	June, 2025
Website	:	<a href="http://www.icaai.org">www.icaai.org</a>
Department/Committee	:	Board of Studies (Academic)
E-mail	:	<a href="mailto:bosnoida@icaai.in">bosnoida@icaai.in</a>
Price	:	
ISBN No.	:	
Published by	:	The Publication & CDS Directorate on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi- 110 002, India
		Typeset and designed at Board of Studies.
Printed by	:	

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## **REVISION TEST PAPER, SEPTEMBER, 2025 – OBJECTIVE & APPROACH**

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

### **I. Objective of Revision Test Paper**

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

The primary objectives of the RTP are:

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

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

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

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

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

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

## II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects (along with the Statutory Update in case of Paper 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 & INTERNATIONAL TAXATION**

The provisions of direct tax laws, as amended by the Finance (No. 2) Act, 2024 and significant notifications, circulars issued and other legislative amendments made upto 28.2.2025, are relevant for September, 2025 examination. The relevant assessment year for September, 2025 examination is A.Y.2025-26.

The November 2024 edition of the Study Material, comprising of four modules (Modules 1 to 4), is applicable for September, 2025 Examination.

The above referred study material has to be read along with Statutory Update for September, 2025 Examination webhosted at <https://resource.cdn.icai.org/86345bos-aps947-statutory-fnl-sep2025.pdf> at BoS Knowledge Portal, which contains the significant notifications/circulars issued upto 28.2.2025 but not covered in the November, 2024 edition of the Study Material, which are also relevant for Examination. The Judicial Update for September, 2025 examination available at <https://resource.cdn.icai.org/86374bos-aps978-judicial-update-sep2025.pdf> is also relevant and important for September, 2025 examination.

You have to read the November, 2024 edition of the Study Material along with the Statutory Update and Judicial Update for September, 2025 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 (No. 2) Act, 2024 and latest notifications and circulars have been given in *italics/bold italics*. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Work out the exercise questions at the end of each chapter and then, compare your answers with the answers given to test your level of understanding. Thereafter, solve the MCQs and case scenarios based MCQs uploaded in MCQ Paper Practice Dashboard to assess your level of understanding and hone your analytical and problem-solving skills.

After that solve the questions given in RTP for May, 2025 examination.

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 September 2025 examination:

The following are applicable for September 2025 examination:

- (i) The provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 28.02.2025.
- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 28.02.2025.

*Note - The amendments made by the Annual Union Finance Acts in the Indirect Tax Laws are made effective from a date notified subsequently. Thus, only those amendments made by the relevant Finance Acts which have become effective till 28.02.2025 are applicable for September 2025 examination.*

*Accordingly, all the amendments made by the Finance (No. 2) Act, 2024 are applicable for September 2025 examination since they have become effective till 28.02.2025 and amendments in sections 2 and 20 of the CGST Act, 2017 made by the Finance Act, 2024 are NOT applicable for the said examination since they have not become effective till 28.02.2025.*

*Further, it may be noted that amendments made by the Finance Act, 2023 in sections 9, 9A and 9C of the Customs Tariff Act, 1975 and in section 65 of the Customs Act, 1962 and insertion of new section 65A in the Customs Act, 1962 have not become effective till 28.02.2025 and thus, are not applicable for September 2025 examination. Also, the amendments made by the Finance (No. 2) Act, 2019 in sections 2(4), 95, 102, 103, 104, 105 and 106 of the CGST Act, 2017 and the insertion of new sections 101A, 101B & 101C in the CGST Act, 2017, have not become effective till 28.02.2025 and thus, are not applicable for September 2025 examination.*

Further, a list of topic-wise exclusions from the syllabus has been specified by way of "Study Guidelines for September 2025 Examination". The same is given as part of "Applicability of Standards/Guidance Notes/Legislative Amendments etc. for September 2025 - Final Examination" appended at the end of this Revision Test Paper.



Students may note that November 2024 Edition of the Study Material is applicable for Final Paper 5: Indirect Tax Laws. The Study Material has been divided into four modules for ease of handling by students. The first three modules are on GST and the fourth module is on Customs and FTP.

The subject matter of Part I: Goods and Services Tax of this Study Material is based on the provisions of the Central Goods and Services Tax Act, 2017 and Integrated Goods and Services Act, 2017 as amended by the Finance (No. 2) Act, 2024 including the significant notifications and circulars issued and other legislative amendments made, which have become effective upto 31.10.2024.

The content discussed in Part II: Customs & FTP is based on the Customs laws as amended by the Finance (No. 2) Act, 2024 including the significant notifications and circulars issued and other legislative amendments made, which have become effective upto 31.10.2024.

The significant notifications and circulars issued from 01.11.2024 to 28.02.2025 in Part I: Goods and Services Tax and Part II: Customs & FTP are compiled and web hosted as Statutory Update for September 2025 examination.

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

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

**PAPER – 6: INTEGRATED BUSINESS SOLUTIONS**

Integral to the Integrated Business Solutions (IBS) curriculum is the 'Case Study', a vital aspect of the CA Final Level. Here, students must apply their knowledge gathered from the five core subjects at final level and Self-paced Modules Set A & B. In this paper, since students are expected to integrate the knowledge acquired in different subjects in solving case studies, there is no separate study material. However, multi-disciplinary case studies are available in Case Study Digest, which will help them understand the manner of answering case study-based questions involving different subjects. The Case Study Digest includes 50 case studies, many of which focus on contemporary business models used by reputable companies across various sectors. These sectors include the beverage industry (specifically the tea segment), e-commerce, transportation, telecommunications, the aviation sector, food and hospitality, the construction industry, healthcare, and the fast fashion industry. Each case study provides an in-depth analysis of the innovative strategies and practices driving success in these fields.

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

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

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

Case Study	Industry	Subjects	Topics
1	Dealership (Automobile Sector)	Direct Tax, Indirect Tax, Advanced Financial Management, Corporate and	Section 2(93) of the CGST Act; Sec. 194T, 40(b)(3) of the Income Tax Act; Net Present Value; Sec. 5 of FEMA; Customer Life Time

		Economic Laws, Strategic Cost & Performance Management	Value and KANO Model.
2	Manufacturing (Automobile Sector)	Financial Reporting, Direct Tax, Indirect Tax, Auditing, Corporate and Economic Laws, Strategic Cost & Performance Management	Ind AS 109, Ind AS 37, Ind AS 10, Ind AS 115; SA 240; Pareto Analysis; Sec. 74A and 122(1) of the CGST Act; Sec. 45(1A) and 43(6) of the Income Tax Act 1961; Sec. 149 (1) of the Companies Act 2013.

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





## **PAPER – 4:**

# **DIRECT TAX LAWS & INTERNATIONAL TAXATION**

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The provisions of direct tax laws, as amended by the Finance (No. 2) Act, 2024 and the significant notifications and circulars issued upto 28.02.2025, are relevant for September 2025 examination. The relevant assessment year is A.Y.2025-26. The November, 2024 edition of the Study Material contains the provisions of direct tax laws as amended by the Finance (No. 2) Act, 2024 and notifications and circulars issued upto 31.10.2024. The said study material has to be read along with the Statutory Update containing notifications and circulars issued upto 28.02.2025 but not covered in the study material webhosted at <https://resource.cdn.icai.org/86345bos-aps947-statutory-fnl-sep2025.pdf> and Judicial Update for September, 2025 Examination webhosted at <https://resource.cdn.icai.org/86374bos-aps978-judicial-update-sep2025.pdf>



### **QUESTIONS**

#### **Case Scenario I**

Sugam (P) Ltd., Mumbai is engaged in manufacture of ceiling fans and exporting the same to various associated and other enterprises worldwide. The income tax assessment for A.Y. 2022-23 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 855 lakhs. The company applied for APA in March 2024 which was signed in July 2024. The tax assessment for the A.Y. 2021-22 regarding ALP of international transaction was disputed before the Tribunal which set aside the order for fresh consideration by the Assessing Officer in June 2024. The company also applied for rollback benefit which was agreed and signed in December 2024. If the APA is applied, the ALP determined for the A.Y.2022-23 would get enhanced by ₹ 580 lakhs as against ₹ 855 lakhs originally determined by TPO.

Sugam (P) Ltd. has an associated enterprise by name Fiber Inc. in Australia. Fiber Inc. wants to appoint an agent in India to procure raw materials from India for the purpose of manufacture of its products in Germany. The persons/ entity so appointed would be authorized to enter into contracts on its behalf after negotiations with the suppliers.

Sugam (P) Ltd. borrowed USD 100 lakhs from Triple Inc. USA on 1st July 2019 under a loan agreement approved by the Central Government. Interest is payable half yearly in foreign currency @ 4% per annum, on every half year i.e. on 31st December and 30th June. For the half year ended 31st December 2024, interest was paid on 28th February 2025 after deducting tax on source.

TT buying rate of SBI on various dates are: 31<sup>st</sup> December, 2024 - 1 USD = ₹ 72; 31st January, 2025 - 1 USD = ₹ 73; 28th February, 2025 - 1 USD = ₹ 72.50; 31<sup>st</sup> March 2025-1 USD = ₹ 74.

Sugam (P) Ltd. exported its products to unrelated party Midland Ltd., Canada. Sugam (P) Ltd. did not maintain prescribed document and information in respect of sales made to Midland Ltd. During the financial year 2024-25, the aggregate sale made by Sugam (P) Ltd. to Midland Ltd., was ₹ 12 crores.

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

1. For which of the following Assessment Years, can the company validly claim rollback benefit under the Advance Pricing Agreement (APA) provisions?
  - (a) A.Y. 2021-22, A.Y. 2022-23, A.Y. 2023-24, A.Y. 2024-25
  - (b) A.Y. 2022-23, A.Y. 2023-24, A.Y. 2024-25, A.Y. 2025-26
  - (c) A.Y. 2021-22, A.Y. 2023-24, A.Y. 2024-25
  - (d) A.Y. 2022-23, A.Y. 2023-24, A.Y. 2024-25
2. What is the time limit for filing the modified return of income in respect of rollback years under the APA provisions?
  - (a) Within 3 months from the end of the month in which the original APA was signed, i.e., 30th October 2024
  - (b) Within 3 months from the end of the month in which the rollback agreement was signed, i.e., 31<sup>st</sup> March 2025

- (c) Within 6 months from the end of the financial year in which original APA was signed, i.e., 30th September 2025
  - (d) On or before the original due date of filing return of income for rollback years
3. Which of the following statements is **correct** regarding the adjustment of Arm's Length Price (ALP) for A.Y. 2022-23 based on the APA and TPO's original determination?
- (a) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the adjustment based on APA of ₹ 580 lakhs results in reducing the total income of the company compared to the TPO's adjustment of ₹ 855 lakhs, thereby disqualifying rollback provisions.
  - (b) ALP adjustment of ₹ 580 lakhs has to be made for A.Y. 2022-23 even though it is less than the TPO's original adjustment of ₹ 855 lakhs since it does not reduce total income as declared in the return of income.
  - (c) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as rollback provisions cannot be applied for A.Y. 2022-23.
  - (d) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the ALP is already determined by the TPO.
4. How much is the amount of tax deductible at source by Sugam (P) Ltd. on interest paid to Triple Inc. on 28th February 2025?
- (a) ₹ 7,63,776
  - (b) ₹ 7,74,384
  - (c) ₹ 7,69,080
  - (d) ₹ 61,10,208
5. In which of the following instances, business connection would not get established for Fiber Inc. in India?
- (a) Opening a branch in Pune for carrying on business in India.
  - (b) Opening a liaison office in New Delhi for finalizing the contracts for supply of raw materials by the suppliers.

- (c) Appointing Mr. X as an agent in Kolkata for interacting with potential customers for promoting the company's products. Mr. X acts as an agent in India for several other companies, which are not related in any manner to Fiber Inc.
- (d) Appointing Mr. Y as an agent in Mumbai for finalizing contracts with the customers on its behalf. Mr. Y acts exclusively for Fiber Inc.
6. How much would be the quantum of penalty leviable on Sugam (P) Ltd. for failure to keep and maintain documents in respect of its transactions with Midland Ltd?
- (a) ₹ 1,00,000
- (b) ₹ 12,00,000
- (c) ₹ 24,00,000
- (d) NIL

### Case Scenario II

Timely Payment Limited is engaged in manufacturing and distribution of clocks and watches. It has committed multiple offences over different financial years. The details of the application made for compounding of such offences and their status is given below:

Application Date	Status	Details
10/01/2021	Compounded	Offence u/s 276B for F.Y. 2015-16
15/12/2022	Compounded	Offence u/s 276C(1) for F.Y. 2018-19
14/09/2023	Rejected	Compounding application for offence u/s 276B for F.Y. 2016-17 – rejected due to non payment of tax
20/07/2024	Pending	Application filed for offence u/s 276CC for F.Y. 2019-20 – not disposed of till 17.10.2024
15/11/2024	Consolidated application	Fresh application filed covering: <ul style="list-style-type: none"> <li>Offence u/s 276B for F.Y. 2016-17</li> </ul>



		<ul style="list-style-type: none"> <li>• Offence u/s 276C(1) for F.Y. 2021-22</li> <li>• Offence u/s 275A for F.Y. 2023-24</li> </ul>
18/12/2024	New application	Application for offence u/s 276B for F.Y. 2022-23. Prosecution initiated on 10/ 08/ 2023

**Other Relevant Facts:**

- All dues including tax, interest, penalty have been paid before filing the application.
- The applicant has filed necessary undertakings and agreed to withdraw related appeals.
- Compounding application fees of ₹ 50,000 and ₹ 25,000 were paid for consolidated and single applications, respectively.

The company has delayed in depositing the tax deducted at source for the first quarter of F.Y. 2024-25 of ₹ 1,25,00,000 for 135 days. However, no prosecution proceedings yet commenced for such offence. Company has paid all TDS, interest, penalty etc.

Assume that the normal compounding charges in each of the above offence is ₹ 45,000.

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

7. As per the guidelines of compounding of offences, how will the application dated 20/07/2024 (pending as on 17.10.2024) be treated?
- It will be treated as debarred, and company has to file a fresh application under revised guidelines and pay fresh application fees.
  - It will be disposed of as per previous guidelines.
  - It will be treated as the first application under revised guidelines and no fees is required to be paid.
  - It will be rejected automatically since it was filed under previous guidelines.

8. What rate of compounding charges shall be applicable on compounding the offence u/s 275A for F.Y. 2023-24 included in the consolidated application?
- (a) Normal rate
  - (b) 1.2 times of compounding charges
  - (c) 1.4 times of normal rate
  - (d) Not a compoundable offence
9. What rate of compounding charges shall be applicable on compounding the offence u/s 276B for F.Y. 2016-17 included in the consolidated application?
- (a) Normal rate
  - (b) 1.2 times of compounding charges
  - (c) 1.4 times of normal rate
  - (d) Not compoundable, as it was previously rejected due to non payment of tax
10. What would be compounding charges for application filed on 18.12.2024 for offence u/s 276B for F.Y. 2022-23?
- (a) ₹ 81,000
  - (b) ₹ 45,000
  - (c) ₹ 94,500
  - (d) ₹ 67,500
11. Whether application for compounding of offence can be filed for the third quarter of F.Y. 2024-25?
- (a) No, application for compounding can be filed only after initiation of prosecution proceeding.
  - (b) No, application for compounding cannot be filed for offence related to delay in deposit of TDS
  - (c) Yes, application for compounding can be filed by the company even if prosecution proceedings are not yet commenced.

- (d) Since company has already paid the TDS, interest and penalty etc., no further action is required for F.Y. 2024-25.
12. A search is conducted by the Income-tax department in India in the premises of Mr. Surya Prakash on 25.3.2025 and it has come to the notice of the department that Mr. Surya Prakash has earned income to the tune of ₹ 5 lakhs in country X during the previous year 2020-21. Further, Income-tax department noticed the existence of undisclosed gold jewellery which was purchased on 21-4-2022. Neither this income, nor the asset in question, has any bearing to income chargeable under the provisions of the Income-tax Act, 1961. The jewellery had been purchased for ₹ 4.2 lakhs. Its value as per report of Valuer recognized by the Government is ₹ 5.2 lakhs as on 1.4.2024 and ₹ 5.3 lakhs as on 25.3.2025.

Which of the following statements is correct, with reference to the taxability of the impugned items in the hands of Mr. Surya Prakash in India under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BM Act)?

- (i) Both undisclosed income and undisclosed asset would be taxable in the P.Y.2024-25
- (ii) Undisclosed asset is taxable in the P.Y.2022-23 and undisclosed income in the P.Y.2020-21
- (iii) Undisclosed asset is taxable in the P.Y.2024-25 and undisclosed income in the P.Y.2020-21
- (iv) The value of undisclosed asset is ₹ 4.2 lakhs
- (v) The value of undisclosed asset is ₹ 5.2 lakhs
- (vi) The value of undisclosed asset is ₹ 5.3 lakhs

The correct answer is –

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

13. Peter Pte. Ltd., Singapore (a Foreign Institutional Investor) is a subsidiary company of Zoom Ltd. based on U.K. Peter Pte. Ltd. commenced its activities in India from 01<sup>st</sup> December, 2024. On 31st March 2025, it earned short term capital gains of ₹ 70 lakhs on transfer of listed shares of an Indian company on which STT is paid.

How much is the tax payable by Peter Pte. Ltd. on the short-term capital gain of ₹ 70 lakhs for the A.Y. 2025-26?

- (a) ₹ 12,01,200
  - (b) ₹ 10,92,000
  - (c) ₹ 16,01,600
  - (d) ₹ 14,56,000
14. The net profit of Rainbow Ltd. as per its statement of profit and loss for the year ended 31.03.2025 amounted to ₹ 27,22,000 after debiting/crediting following items:
- (i) Payment of interest on money borrowed from bank for purchase of land ₹ 2,00,000. The land was meant for construction of a factory building and for which the approval from local authority is pending till 31.03.2025.
  - (ii) Commission of ₹ 1,00,000 paid in the month of February, 2025 on which tax was deducted in February, 2025 itself. Commission of ₹ 1,25,000 paid in the month of March, 2025 on which tax was deducted in May, 2025. Tax deducted at source on these payments was deposited to the Government on 28.09.2025.
  - (iii) Travelling expenses of ₹ 90,000 on a foreign tour of a director for negotiating collaboration with a foreign manufacturer for initiation of new line of business.
  - (iv) As part of the restructuring of its debt, the company has converted arrears of interest of ₹ 3,00,000 on term loan into a new term loan with a revised repayment schedule. The company has paid ₹ 50,000 towards such funded interest during the year. ₹ 3,00,000 is debited to statement of profit and loss.

- (v) On EPABX and mobile phones (exclusively used for business purpose) purchased during the year, depreciation amounting to ₹ 18 lakhs was claimed at 40% treating them as computers.
- (vi) ₹ 5,00,000, being contribution to S Ltd. (wholly owned subsidiary company) for construction of a school for the benefit of its employees.
- (vii) Dividend received from P Ltd. on 10,000 equity shares of ₹ 10 each purchased at ₹ 100 per share on 10<sup>th</sup> October, 2017. The rate of dividend declared is 100%, the record date being 10<sup>th</sup> December, 2024. These shares were sold on 15.3.2025 at ₹ 130 per share. Long term capital gain of ₹ 3 lakhs is credited in statement of profit and loss. Fair market value of shares as on 31.1.2018 is ₹ 110.
- (viii) Provision for gratuity based on actuarial valuation ₹ 6,00,000 was debited to statement of profit and loss. Actual gratuity paid ₹ 1,50,000 was debited to provision for gratuity account.

**Other information:**

- (1) Provision for bonus for the year 2023-24 paid on 15.11.2024 ₹ 98,000. It is inclusive of payment by bearer cheque of ₹ 34,000 to one employee.
- (2) The company has purchased and put to use a commercial vehicle of ₹ 8,00,000 for the purpose of business on 21.03.2025 and calculated depreciation@15% for the full year. Depreciation debited to the statement of profit and loss is calculated on all other assets as per the rates prescribed in the Income-tax Act, 1961.

Compute the total income of the company chargeable to tax for the A.Y. 2025-26, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes.

- 15. Shaanti Foundation, a Charitable institution registered under section 12AB is engaged in preservation of forests. The accountant of the institution provides the following details of the institution to you as a Chartered Accountant. Examine and discuss the treatment of each of the independent situations in the hands of the Charitable institution for the

P.Y. 2024-25 as per provisions of Income-tax Act, 1961. Your answer should be followed with reasons:

- (i) The institution follows mercantile system of accounting and during the previous year 2024-25, has incurred Electricity expenses amounting to ₹ 1,20,000 for the period pertaining to the year 2024-25. The Electricity expenses was actually paid on 15<sup>th</sup> April 2025 through an account payee cheque. In which year, such expenditure will be treated as application of income of the Shaanti Foundation?
  - (ii) The Foundation was cultivating 15 acres of agriculture land. From agricultural operations, it earned ₹ 10,00,000 during the previous year 2024-25. Whether exemption under section 10(1) will be available to Shaanti Foundation on such income?
  - (iii) Shaanti Foundation has earned rental income for the P.Y. 2024-25 amounting to ₹ 4,00,000. It received ₹ 3,00,000 upto 31<sup>st</sup> December, 2024 of such income. However, the balance of ₹ 1,00,000 was received on 31<sup>st</sup> August, 2025. Upto what period the institution can apply the same amount towards the objects of the institution? The institution has exercised the relevant option in this regard.
16. In respect of the following independent case scenarios, you are required to discuss the provisions related to tax deducted at source/tax collection at source for the year ended 31<sup>st</sup> March, 2025:
- (1) Mr. Raju purchased scrap of ₹ 55 lakhs from Mr. Sandeep for the purpose of his manufacturing unit and credited him in books of account. Mr. Raju furnished a certificate to Mr. Sandeep that the scrap shall be utilized for manufacturing process carried on by him and shall not be used for trading purposes. Mr. Raju made the payment of ₹ 45 lakhs during the F.Y 2024-25 to Mr. Sandeep. Assume turnover of both Mr. Raju and Mr. Sandeep from the business carried on by them exceeds ₹ 10 crores in the financial year 2023-24.
  - (2) Mr. Rajat took a loan of ₹ 12 lakhs from his employer, Josh Private Limited, an Indian domestic manufacturing company for

sponsoring studies of his daughter in Australia. Out of the said loan, he remitted ₹ 9,75,000 towards fees to the University in Australia for his daughter's education on 01.10.2024.

The remittances were made through the same authorized dealer under the Liberalized Remittance Scheme of RBI.

17. Samaksh Ltd. filed its return of income under section 139(1) on 15<sup>th</sup> September, 2023 for A.Y. 2023-24. The return was found to be defective, and an intimation was issued on 10<sup>th</sup> May, 2024, directing the assessee to rectify the defects within 15 days. The defects were rectified on 19<sup>th</sup> May, 2024. The return was processed, and intimation was sent on 15<sup>th</sup> July, 2024. Subsequently, the Assessing Officer issued a notice under section 143(2) on 21<sup>st</sup> June, 2025.

CA. of Samaksh Ltd. contended that the notice was barred by limitation since it was issued beyond the permissible time limit. Examine the validity of the notice issued under section 143(2) by the Assessing Officer.

18. Mr. Kabir filed his return of income for A.Y.2025-26, declaring total income of ₹ 35 lakhs, on 2<sup>nd</sup> June, 2025. He has opted out of the default tax regime. On processing of return, the total income determined under section 143(1)(a) was ₹ 45 lakhs. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and passed an assessment order under section 143(3) assessing total income of ₹ 85 lakhs. Later on, the Assessing Officer noticed that certain income had escaped assessment and issued notice for reassessment under section 148. The total income reassessed under section 147 was ₹ 1.05 crores.

Considering that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under section 270A(6), compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment under section 143(3) and at the time of reassessment under section 147 (Assume under-reporting of income is not on account of misreporting).

19. DiamondLux BV is a foreign company incorporated in Belgium. It is engaged in diamond mining and trading of raw diamonds. It sells raw diamonds globally. During the P.Y. 2024-25, it sold raw diamonds to

Indian buyers in Special Notified Zone (SNZ) in Surat, Gujarat for ₹ 100 crores. An exhibition was taken place in Special Notified Zone (SNZ) in Surat, Gujarat for display of uncut and unassorted diamonds. DiamondLux BV has income of ₹ 10 crores from activity of display of uncut and unassorted diamond in that exhibition. DiamondLux BV wants to exercise the option to apply for safe harbour rules. It wants to declare profits of ₹ 3 crores from trading of raw diamonds to Indian buyers and profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat.

Whether DiamondLux BV is eligible to opt for the Safe Harbour Rules. If yes, can it declare profit of ₹ 3 crores and ₹ 2 crores from trading of raw diamonds to Indian buyers and from display of diamonds, respectively under safe harbour rules?

20. Ms. Kanika Tondon is a popular Indian pop singer. She has business interest in Country X and Y as well. She is a resident in India for the A.Y. 2025-26.

The details of income earned by Ms. Kanika Tondon from India as well as Country X and Country Y with which India does not have any DTAA, during the P.Y. 2024-25 are as under:

Type of Income	India	X	Y
	(₹ in crores)		
Income from house property (Computed)	4.3	(1.3)	-
Business/ Professional income:			
Singing profession	9	-	2
From being the owner of cricket team Delhi Super Players	5.5	-	-
Other business		7.2	2.9
Share income from partnership firm (not evidenced by an instrument in writing)		4.8	-
Agricultural income	1.5	-	1.2



Ms. Kanika has deposited ₹ 1.5 lakhs in PPF and paid Life Insurance premium of ₹ 1 lakh.

In Country X, share income is not exempt and loss from house property is not eligible for being set off against other income. In Country Y, agricultural income is chargeable to income-tax.

In Country X, Ms. Kanika has paid income-tax of ₹ 2.16 crores and in Country Y ₹ 2.44 crores on the total income earned in those countries.

Compute the net tax liability of Ms. Kanika for the A.Y.2025-26, assuming that she is paying tax under default tax regime under section 115BAC.


**SUGGESTED ANSWERS**

MCQ No.	Most Appropriate Answer
1.	(a)
2.	(b)
3.	(b)
4.	(a)
5.	(c)
6.	(d)
7.	(c)

MCQ No.	Most Appropriate Answer
8.	(a)
9.	(b)
10.	(c)
11.	(c)
12.	(c)
13.	(d)

**14. Computation of total income of Rainbow Ltd. for A.Y.2025-26**

Particulars		₹	₹
I	<b>Profits &amp; Gains of Business of Profession</b>		
	Net Profit as per Statement of Profit & Loss		27,22,000

<b>Add: Items debited but to be considered separately or to be disallowed</b>		
<ul style="list-style-type: none"> <li>- <b>Interest on money borrowed for purchase of land</b> [As per section 36(1)(iii), interest on borrowed capital till the asset is put to use has to be capitalized. Hence, interest on moneys borrowed is not allowable under section 36(1)(iii). Since it is already debited to statement of profit and loss, the same has to be reduced.]</li> </ul>	2,00,000	
<ul style="list-style-type: none"> <li>- <b>Commission paid in February, 2025</b> [Commission paid in February, 2025 after deduction of tax is allowable as deduction during the P.Y. 2024-25 since TDS has been deposited before the due date of filing return of income. Since commission is already debited to statement of profit and loss, no adjustment is required.]</li> </ul>	Nil	
<ul style="list-style-type: none"> <li>- <b>Commission paid in March, 2025</b> [30% of commission paid in March 2025 on which TDS was deducted and paid in subsequent year would be disallowed during the P.Y. 2024-25 and would be allowed as deduction in the year in which such tax has been paid. Hence, 30% of commission debited to statement of profit and loss would be added back.]</li> </ul>	37,500	

-	<b>Travelling expenses on foreign tour in connection with new line of business</b> [Travelling expenses incurred on foreign tour of a director for initiating a new line of business is a capital expenditure. The same is, therefore, not deductible under section 37(1). Since it is already debited to statement of profit and loss, the same has to be reduced.]	90,000	
-	<b>Interest on term loan converted into new term loan</b> [Under section 43B, interest on loan due to any scheduled bank, etc. is allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by the assessee. Conversion of arrear interest into a fresh loan by a bank cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, out of ₹ 3 lakhs, only ₹ 50,000, being the funded interest was actually paid which is allowable as deduction while computing business income of P.Y.2024-25. The balance of ₹ 2,50,000 has to be added back.]	2,50,000	
-	<b>Excess depreciation provided on EPABX &amp; Mobile phones not allowable as deduction</b> [EPABX and mobile phones are not computers and therefore, are not	11,25,000	

	entitled to depreciation @ 40%. It was so held by the Kerala High Court in <i>Federal Bank Ltd. v. ACIT (2011) 332 ITR 319</i> . Therefore, EPABX and mobile phones would be entitled to depreciation of ₹ 6,75,000, calculated by applying the rate of 15%, being the general rate applicable to plant and machinery, on the cost of ₹ 45,00,000 (₹ 18,00,000 × 100/40). The excess depreciation of ₹ 11,25,000 (being ₹ 18,00,000 – ₹ 6,75,000), debited to statement of profit and loss, has to be added back.]		
-	<b>Contribution to S Ltd. (wholly owned subsidiary company)</b> [Contribution to a wholly owned subsidiary company for construction of a school for the benefit of its employees is allowable under section 37(1).]	-	
-	<b>Provision for gratuity ₹ 6,00,000</b> <b>Less: Gratuity paid ₹ 1,50,000</b> [Under section 40A(7), no deduction is allowed in respect of any provision made for the payment of gratuity to the employees on retirement or termination of employment for any reason. However, gratuity actually paid is admissible as deduction. Therefore, provision for gratuity of ₹ 6,00,000 is to be disallowed. Actual gratuity paid ₹ 1,50,000 debited to provision for gratuity account is	4,50,000	

	allowable. Hence, only the net sum of ₹ 4,50,000 has to be added back.]		
-	<b>Depreciation on commercial vehicle</b> [Depreciation on commercial vehicle has been calculated @15% and, consequently, ₹ 1,20,000 has been debited to statement of profit and loss. Since it was acquired in March 2025 only, 50% of normal depreciation is allowable. The excess depreciation of ₹ 60,000 is, hence, disallowed.]	60,000	22,12,500
	<b>Less: Items credited but to be considered separately and those not charged but to be allowed</b>		49,34,500
-	<b>Long term capital gain on sale of equity shares</b> [Taxable under the head "Capital gains"]	3,00,000	
-	<b>Bonus paid on 15.11.2024 in respect of previous year 2023-24 disallowed last year but allowable in P.Y. 2024-25</b> [Provision for bonus for the previous year 2023-24 would have been disallowed under section 43B for non-payment by due date for filing of return of income for assessment year 2024-25. Payment of bonus made after the said date is allowed in the year of actual payment. However, such deduction allowable in the year of payment is subject to the	64,000	

	provisions of section 40A(3). Hence, the sum of ₹ 34,000, being bonus paid by bearer cheque shall not be allowed as deduction in the year of payment.]		
	- <b>Dividend from P Ltd.</b> [Dividend is taxable under the head "Income from Other Sources"]	1,00,000	4,64,000
<b>II</b>	<b>Capital Gains</b>		44,70,500
	<b>Long term capital gain on sale of equity shares [Taxable @12.5% on sum exceeding ₹ 1,25,000]</b>		
	Sale consideration [10,000 x ₹ 130]	13,00,000	
	Less: Cost of acquisition	11,00,000	2,00,000
	Higher of		
	- Actual cost of ₹ 10 lakhs [10,000 x 100]		
	- Lower of fair market value as on 31.1.2018 of ₹ 11 lakhs or sale consideration of ₹ 13 lakhs		
<b>III</b>	<b>Income from Other Sources</b>		
	Dividend from P Ltd. [Dividend is taxable under the head "Income from Other Sources"]		1,00,000
	<b>Total Income</b>		<b>47,70,500</b>

15. (i) As per *Explanation* to section 11, any sum payable by any trust or institution shall be treated as application of income only in the previous year when such sum is actually paid by it. This is irrespective of the previous year in which the liability to pay such sum was incurred or method of accounting regularly employed by it. Thus,

expenditure is allowed as application only when the payment is actually made and not when the liability is incurred.

In the present case, though the Shaanti Foundation follows mercantile system of accounting, electricity expenses of ₹ 1,20,000 incurred during the P.Y. 2024-25 would be allowable as application of income only in the P.Y. 2025-26 as actual payment is made on 15<sup>th</sup> April, 2025.

- (ii) As per section 11(7), where a trust or an institution has been granted registration for purposes of availing exemption under section 12AB, such trust or institution cannot claim any exemption under any provision of section 10 [other than exemption of agricultural income under section 10(1)].

Accordingly, agricultural income of ₹ 10,00,000 would be exempt under section 10(1) in the hands of Shaanti Foundation registered under section 12AB.

- (iii) In case a trust is unable to apply the minimum of 85% of its income during the previous year from the reason that the whole or any part of the income has not been received during that year, the period of application is extended to cover the previous year in which the income is actually received or the previous year immediately following the previous year in which the income was received.

Accordingly, in the present case, income of ₹ 1,00,000 which was received on 31<sup>st</sup> August, 2025 can be applied during the P.Y. 2025-26, being the year in which such amount is received or in the P.Y. 2026-27, being the P.Y. immediately following the P.Y. 2025-26.

- 16.** (1) By virtue of section 206C(1A), Mr. Sandeep is not required to collect tax at source under section 206C(1), since Mr. Raju has furnished a certificate to Mr. Sandeep that the scrap purchased from him is for manufacturing process carried on by him and not for trading purposes.

However, TDS under section 194Q will be attracted in the hands of the buyer in such cases covered under section 206C(1A), if the conditions specified under section 194Q are fulfilled.

In this case, tax is required to be deducted at source under section 194Q by the buyer, Mr. Raju, since his turnover in the immediately preceding financial year i.e., F.Y.2023-24 exceeds ₹ 10 crores and he has purchased goods of the value or aggregate of such value exceeding ₹ 50 lakhs in the F.Y.2024-25. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, Mr. Raju is required to deduct tax at source @ 0.1% of ₹ 5,00,000, being the amount exceeding ₹ 50 lakhs at the time of credit.

- (2) Tax would be collectible at source under section 206C(1G) by the authorised dealer, who received an amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from Mr. Rajat at the rate of 5% of the sum exceeding ₹ 7 lakhs.

Tax of ₹ 13,750 (5% of ₹ 2,75,000, being the sum exceeding ₹ 7 lakhs) would be collectible by the authorised dealer on 1.10.2024 on remittance of ₹ 9,75,000 for education of Mr. Rajat's daughter out of the loan from his employer. The concessional rate of TCS of 0.5% would not be applicable, since the amount of remittance is not out of a loan obtained from any financial institution as referred under section 80E.

17. The issue under consideration is whether, for the purpose of computing limitation period under section 143(2), the relevant date is the date of filing of the original return of income or the date of removal of defects in response to a notice issued under section 139(9)?

The same issue came up before Supreme Court in *DCIT vs Travel Designer India Pvt. Ltd. vs (2025) 482 ITR 283*. In this case, the High Court noted that since the return was defective, the assessee was called upon to remove such defects, which was removed on 19<sup>th</sup> May, 2024, which is within the time allowed by the Assessing Officer. Therefore, upon such



defects being removed, the return would relate back to the date of filing original return i.e., 15<sup>th</sup> September, 2023. Consequently, the limitation for issuance of notice under section 143(2) would be 30<sup>th</sup> June, 2024 i.e., three months from the end of the financial year in which the return under section 139(1) was filed.

In the present case, notice under section 143(2) has been issued on 21<sup>st</sup> June, 2025, which is much beyond the period of limitation. Therefore, such notice is barred by limitation and cannot be sustained.

Accordingly, the notice issued under section 143(2) is not a valid notice.

**18.** Mr. Kabir is deemed to have under-reported his income since:

- (1) his income assessed under 143(3) exceeds its income determined in a return processed under section 143(1)(a); and
- (2) the income reassessed under section 147 exceeds the income assessed under section 143(3).

Therefore, penalty is leviable under section 270A for under-reporting of income.

**Computation of penalty leviable under section 270A**

Particulars	₹	₹
<b><u>Assessment under section 143(3)</u></b>		
<b><u>Under-reported income:</u></b>		
Total income assessed under section 143(3)	85,00,000	
(-) Total income determined u/s 143(1)(a)	45,00,000	
	40,00,000	
Tax payable on under-reported income <i>plus</i> income determined u/s 143(1)(a) i.e., on ₹ 85 lakhs [(30% of ₹ 75 lakh + ₹ 1,12,500) + Surcharge @10% + HEC@4%]	27,02,700	
Less: Tax payable on income determined u/s 143(1)(a) i.e., on ₹ 45 lakhs [(30% of ₹ 35 lakh + ₹ 1,12,500) + HEC@4%]	12,09,000	
	14,93,700	
Penalty leviable@50% of tax payable		7,46,850

<b><u>Reassessment under section 147</u></b>		
<b><u>Under-reported income:</u></b>		
Total income reassessed under section 147	1,05,00,000	
(-) Total income assessed under section 143(3)	85,00,000	
	20,00,000	
Tax payable on under-reported income <i>plus</i> income determined u/s 143(3) i.e., on ₹ 1.05 crores [(30% of ₹ 95 lakh + ₹ 1,12,500) + Surcharge @15% + HEC@4%]	35,43,150	
Less: Tax payable on income determined u/s 143(3) i.e., on ₹ 85 lakhs [(30% of ₹ 75 lakh + ₹ 1,12,500) + Surcharge @10% + HEC@4%]	27,02,700	
	8,40,450	
Penalty leviable@50% of tax payable		4,20,225

19. Section 92CB(1) provides that the determination of income referred to in section 9(1)(i) shall be subject to safe harbour rules. Safe harbour means circumstances in which the income tax authorities shall accept the transfer price declared by the assessee. Section 92CB(2) empowers the CBDT to prescribe such safe harbour rules or circumstances under which the transfer price declared by the assessee shall be accepted by the Income-tax Authorities.

Accordingly, in exercise of the powers conferred by section 92CB read with section 295 of the Income-tax Act, 1961, the CBDT has, vide *Notification No.124/2024 dated 29.11.2024*, prescribed the safe harbour rules for income referred to in section 9(1)(i) chargeable to tax under the head "Profits and gains of business or profession".

DiamondLux BV is a foreign company engaged in the business of diamond mining, hence, it is an eligible assessee as per Rule 10TI and can apply for safe harbour rules.

An eligible business, for this purpose, means a business of selling raw diamonds in any notified special zone as referred to in clause (e) of *Explanation 1* to section 9(1)(i). Accordingly, display of uncut and unassorted diamonds is not an eligible business and DiamondLux BV cannot declare profits from such display under safe harbour rules.

Moreover, in case of a foreign company which is engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and unassorted diamonds in any notified special zone. Hence, profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat shall not be deemed to accrue or arise in India and not taxable in India.

As per Rule 10TIA, if an eligible assessee declares 4% or more of the gross receipts as profits and gains of the eligible business chargeable to tax under the head "Profits and gains of business or profession", the option for safe harbour exercised by such eligible assessee in any relevant previous year shall be accepted by the income-tax authorities.

During the P.Y. 2024-25, DiamondLux BV wants to declare ₹ 3 crores from trading of raw diamonds to Indian buyers which is only 3% of gross receipts of ₹ 100 crores. Hence, the option for safe harbour exercised by DiamondLux BV in P.Y. 2024-25 shall not be accepted by the income-tax authorities as the same is not in accordance with the circumstance mentioned in Rule 10TIA.

**20. Computation of net tax liability of Ms. Kanika Tondon for A.Y.2025-26**

	Particulars	₹	₹
<b>I</b>	<b>Income from house property</b>		
	Income from house property in India	4,30,00,000	
	Less: Loss from house property in Country X	<u>1,30,00,000</u>	3,00,00,000
<b>II</b>	<b>Profits and gains of business or profession</b>		
	Business/ Professional income in India		
	- From singing profession	9,00,00,000	

- From being the owner of cricket team Delhi Super Players	<u>5,50,00,000</u>		
		14,50,00,000	
<b>Business/ Professional income in Country X</b>			
- Other business	<u>7,20,00,000</u>		
- Share income from firm	<u>4,80,00,000</u>	12,00,00,000	
<b>Business/Professional income in Country Y</b>			
- Singing profession	<u>2,00,00,000</u>		
- Other business	<u>2,90,00,000</u>	<u>4,90,00,000</u>	
			31,40,00,000
<b>III Income from Other Sources</b>			
Agricultural income from India [Exempt u/s 10(1)]		-	
Agricultural income from Country Y		<u>1,20,00,000</u>	<u>1,20,00,000</u>
<b>Gross Total Income</b>			<b>35,60,00,000</b>
<b>Less: Deductions under Chapter VI-A</b> [Not allowable since Ms. Kanika is paying tax under default tax regime]			<u>Nil</u>
<b>Total Income</b>			<b><u>35,60,00,000</u></b>
<b>Computation of tax liability:</b>			
<b>Step 1:</b> Tax on ₹ 37,10,00,000, being non-agricultural income and agricultural income			
[30% x ₹ 36,95,00,000 + ₹ 1,40,000]		11,09,90,000	

<b>Step 2:</b> Tax on ₹ 1,53,00,000, being agricultural income and basic exemption limit of ₹ 3,00,000 [30% x 1,38,00,000 + ₹ 1,40,000]	42,80,000	
<b>Step 3:</b> Step 1 - Step 2		10,67,10,000
Add: Surcharge@25% (since her total income exceeds ₹ 2 crore)		<u>2,66,77,500</u>
		13,33,87,500
Add: HEC @4%		<u>53,35,500</u>
<b>Tax liability</b>		<b>13,87,23,000</b>
Less: Deduction under section 91 [See Working Note below]		<u>4,30,29,870</u>
<b>Net Tax liability (rounded off)</b>		<b>9,56,93,130</b>

**Working Note: Computation of deduction under section 91**

Particulars		₹	₹
I	<b>Average rate of tax in India</b> [13,87,23,000 x 100/35,60,00,000]	38.967%	
	<b>Average rate of tax in Country X</b> [2,16,00,000 x 100/12,00,00,000]	18%	
	<b>Average rate of tax in Country Y</b> [2,44,00,000 x 100/6,10,00,000]	40%	
	<b>Deduction under section 91 in respect of doubly taxed income in India and Country X</b>		
	<b>Doubly taxed income:</b> Country X (i.e., ₹ 7.2 crores, being business income (+) ₹ 4.8 crores,	10,70,00,000	

	being taxable share income from firm (-) ₹ 1.3 crores, loss from house property)		
	Lower of Indian rate of tax of 38.967% and rate of tax in Country X of 18%	18%	
	Deduction u/s 91 = 18% x ₹ 10.70 crores		1,92,60,000
<b>II</b>	<b>Deduction under section 91 in respect of doubly taxed income in India and Country Y</b>		
	<b>Doubly taxed income:</b>		
	Country Y (i.e., ₹ 2 crores, being professional income (+) ₹ 2.9 crores, being business income (+) ₹ 1.2 crores, being taxable agricultural income)	6,10,00,000	
	Lower of Indian rate of tax of 38.967% and rate of tax in Country X of 40%	<b>38.967%</b>	
	Deduction u/s 91 = 38.967% x ₹ 6.10 crores		2,37,69,870
	<b>Deduction under section 91</b>		<b>4,30,29,870</b>



## 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 (No. 2) Act, 2024 including significant notifications and circulars and other legislative amendments made, which are effective up to 28<sup>th</sup> February, 2025 and (ii) customs law as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars and other legislative amendments made, which are effective up to 28<sup>th</sup> February, 2025.
- (2) Unless otherwise specified, the section numbers and rules referred in questions and answers relating to GST pertain to the Central Goods and Services Tax Act, 2017 and the Central Goods and Services Tax Rules, 2017 respectively.
- (3) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. The rates of customs duty are also hypothetical and may not necessarily be the actual rates. Further, GST compensation cess should be ignored in all the questions, wherever applicable.



### QUESTIONS

#### Case scenario – I

Super Lever Limited is engaged in manufacturing of taxable electronic goods. Its retail showroom located in Mumbai as well as two manufacturing units located in Mumbai and Nagpur are registered under same GSTIN under GST in the State of Maharashtra. The company has a manufacturing unit in Bangalore, registered under GST in the State of Karnataka and another retail

showroom located in Ahmedabad, registered under GST in the State of Gujarat.

The company has provided the following details with regard for the month of October:

S. No.	Particulars	Retail Showroom at Mumbai	Mumbai unit	Nagpur unit
(i)	Sale of taxable goods	6,50,000	12,50,000	13,50,000
(ii)	Purchase of taxable raw material		12,70,000	11,80,000
(iii)	Payment made for security	-	1,50,000	1,10,000
(iv)	Interest received on fixed deposits with a nationalised bank			1,08,000
(v)	Sale of securities [Such securities were purchased for ₹ 2,75,000]		4,50,000	
(vi)	Sale of agricultural land in the vicinity of the manufacturing plant [Stamp duty was paid on ₹ 1,85,00,000]			1,85,00,000
(vii)	Sale of old factory building which was not used anymore [Stamp duty was paid on ₹ 75,00,000]		90,00,000	

Following additional information is provided by the company:

1. In case of Mumbai unit, payment for security services for the month of October has been made to Safe and Secure Solutions Pvt. Limited, a company not registered under GST. For Nagpur unit, the payment for



security services for the month of October has been made to Vigilante Solutions, a partnership firm registered under GST.

2. October being Diwali month, the Retail Showroom at Mumbai has sold combo packs of food processors and electric irons at a discounted rate to boost its sales. Each combo pack has been sold at a price of ₹ 6,000. Out of the total sales of Retail Showroom reported in table above, ₹ 1,50,000 is on account of such combo packs. For this purpose, electric irons were specially procured by the Retail Showroom from the market since the company does not manufacture the same. Few electric irons have been sold individually as well. Total sales of such electric irons is ₹ 36,000, which is included in the sales reported in table above.
3. Nagpur unit issued credit notes for ₹ 1,80,000 to its buyers in the month of November towards discount on account of making timely payment. The buyers were aware of such discount at the time of sale in October. All the buyers reversed the proportionate input tax credit on receiving the discount except one buyer who received credit note for ₹ 23,000. Nagpur unit reported sales (taxable goods) of ₹ 16,00,000 in the month of November.
4. Further, in the month of December, Mumbai unit received ₹ 3,15,000 as interest on delayed payment of sale consideration from its buyers (GST is separately recovered on same, if applicable). The interest pertains to the sale made in the month of October. Mumbai unit reported sales (taxable goods) of ₹ 12,00,000 in the month of December.
5. Stock valued at ₹ 7,30,000 was transferred from Mumbai unit to Nagpur unit on October 16. Further, stock valued at ₹ 6,80,000 was also transferred from Bangalore unit to Retail Showroom at Ahmedabad on October 22. The same was billed to Ahmedabad Retail Showroom at ₹ 5,00,000.
7. On October 23, a truck carrying finished goods of the Mumbai unit was intercepted by the proper officer. The proper officer was of the view that the e-way bill was not prepared in accordance with the provisions of the GST law. The truck along with the goods was seized by the proper officer under section 129. The seizure order was passed on October 23 and the same was communicated to Mumbai unit on October 24.

For this case scenario, the applicable rate of GST on electric irons procured from the market is 18% and all other remaining goods is 12%. All the amounts mentioned in the case scenario are exclusive of taxes, wherever applicable.

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

1. The value of taxable supply made by Nagpur unit during the month of October and its gross tax liability (without considering input tax credit) for the month of November is -
  - (a) Value of taxable supply – ₹ 13,50,000; Gross tax liability – ₹ 1,70,400
  - (b) Value of taxable supply – ₹ 11,70,000; Gross tax liability – ₹ 1,92,000
  - (c) Value of taxable supply – ₹ 13,50,000; Gross tax liability – ₹ 1,73,160
  - (d) Value of taxable supply – ₹ 12,78,000; Gross tax liability – ₹ 1,73,160
2. The value of taxable supply made by Mumbai unit during the month of October and its gross tax liability (without considering input tax credit) for the month of December is –
  - (a) Value of taxable supply – ₹ 1,07,00,000; Gross tax liability – ₹ 1,81,800
  - (b) Value of taxable supply – ₹ 15,65,000; Gross tax liability – ₹ 1,44,000
  - (c) Value of taxable supply – ₹ 17,00,000; Gross tax liability – ₹ 1,81,800
  - (d) Value of taxable supply – ₹ 12,50,000; Gross tax liability – ₹ 1,81,800
3. Which of the following statements is correct with regard to gross tax liability for outward supply made by Retail Showroom at Mumbai?
  - (a) The gross tax liability of Retail Showroom (without considering input tax credit) for the month of October is ₹ 89,160.
  - (b) The gross tax liability of Retail Showroom (without considering input tax credit) for the month of October is ₹ 80,160.
  - (c) The gross tax liability of Retail Showroom (without considering input tax credit) for the month of October is ₹ 78,000.
  - (d) The gross tax liability of Retail Showroom (without considering input tax credit) for the month of October is ₹ 73,680.

4. Value of exempt supply provided by Nagpur unit and Mumbai unit during the month of October is-
- (a) Nagpur unit - ₹ 1,08,000; Mumbai unit – Nil
  - (b) Nagpur unit - ₹ 1,86,08,000; Mumbai unit – ₹ 94,50,000
  - (c) Nagpur unit - ₹ 1,86,08,000; Mumbai unit - ₹ 4,50,000
  - (d) Nagpur unit - ₹ 1,08,000; Mumbai unit - ₹ 4,50,000
5. Value of exempt supply provided by Nagpur unit and Mumbai unit for the purpose of reversing input tax credit under rules 42 and 43 during the month of October is-
- (a) Nagpur unit - ₹ 1,08,000; Mumbai unit – ₹ 4,50,000
  - (b) Nagpur unit - ₹ 1,85,00,000; Mumbai unit – ₹ 75,04,500
  - (c) Nagpur unit - ₹ 1,86,08,000; Mumbai unit - ₹ 94,50,000
  - (d) Nagpur unit - ₹ 1,85,00,000; Mumbai unit – ₹ 79,50,000
6. The Mumbai unit wishes to file an appeal against the order passed by the proper officer authorising the seizure of the truck and the goods transported therein. Which of the following statements is correct in this context?
- (a) There is no appellate remedy against the orders passed by the proper officer under section 129.
  - (b) The Mumbai unit can directly file an appeal before the High Court under the CGST Act, 2017 as the GST Appellate Tribunal is yet to be constituted.
  - (c) The Mumbai unit can file an appeal with the Appellate Authority on or before January 24 of the next year.
  - (d) The Mumbai unit can file an appeal with the Revisional authority on or before January 23 of the next year.

**Case scenario – II**

Bella Petroleum Limited is engaged in the business of refining and marketing of petroleum products. It has one refinery each in the States of Tamil Nadu, West Bengal & Maharashtra and numerous administrative and marketing offices spread across the country.

The company has separate marketing cum administrative offices for every major State and common administrative cum marketing offices for a group of small States e.g., all north-eastern States are covered under one marketing cum administrative office. The company also blends lubricants in its blending plants located in the States of Maharashtra and Tamil Nadu.

As a policy, all the places of business of the company in a State are registered under GST under one registration.

Imported crude is used as input in the refinery and following major products are extracted after refining process:

Products chargeable to GST on forward charge basis (Group A)	Products not chargeable to GST (Group B)
Base oil (An input for blending lubricants)	Petrol
Furnace oil	Diesel
Bitumen (Used for road construction)	Air turbine fuel
LPG (Domestic and Industrial)	

Base oils are further sent to blending plants where they are blended with additives to produce lubricants. The company provides the following particulars for States of Tamil Nadu, Maharashtra and West Bengal for the month of January:

(Amount in thousands)

Particulars	Tamil Nadu (₹)	Maharashtra (₹)	West Bengal (₹)
Value of supply inclusive of all taxes/duties (Group B products)	1,650	3,400	1,575

Value of supply (Group A products) before all taxes/duties	100	200	20
Excise duty leviable on supply of Group B products	500	1,000	110
VAT on supply of Group B products	250	600	65
Tax paid on inputs and input services procured at the blending plant	5	6	0
Tax paid on spares procured at the refinery (Spares are booked in revenue account)	3	8	0
Tax paid on inputs and input services procured at the marketing cum administrative office	2	3	1
Tax paid on capital asset procured at the blending plant	0	5	0
Tax paid on capital asset procured at the refinery	12	0	0

Due to sudden fire in the store-room of the refinery located in Maharashtra on 28<sup>th</sup> February, the entire quantity of spares procured in the month of February itself, gets destroyed.

Assume that all of the Group A products are chargeable to GST @ 18% (including both CGST and SGST or IGST, as the case may be).

The opening balance of input tax credit of Bella Petroleum Limited for the relevant tax period is nil. Subject to the information given above, assume that all the other conditions necessary for availing ITC have been fulfilled. Further, there is no other inward or outward supply transaction for Bella Petroleum Limited in January and February apart from the aforementioned transactions.

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

7. The value of company's supply in the Union Territory of Puducherry is ₹ 32,34,000 (Group A products) and in the State of Goa is ₹ 18,38,000 (Group A and Group B products) for the current financial year. GST registration is:
  - (a) not required for both Puducherry and Goa
  - (b) not required for Goa but required for Puducherry
  - (c) required for both Puducherry and Goa
  - (d) not required for Puducherry but required for Goa
8. The eligible ITC attributable to taxable supply, available at marketing cum administrative office located in the State of Maharashtra, for the month of January, is:
  - (a) ₹ 3,000
  - (b) ₹ 300
  - (c) ₹ 166.67
  - (d) ₹ 1,500
9. The eligible ITC attributable to taxable supply in respect of the capital asset procured in the State of Tamil Nadu, for the month of January is:
  - (a) ₹ 12,000.
  - (b) ₹ 200.
  - (c) ₹ 11,811.11.
  - (d) ₹ 11,820.
10. Lubricant valued at ₹ 10,000 has been stock transferred from the blending plant located in the State of Tamil Nadu to the refinery located in the same State, in the month of January. The GST (CGST and SGST) payable on such transaction is:
  - (a) nil as the transaction is not a supply.
  - (b) ₹ 900.

- (c) ₹ 1,800.
  - (d) nil as such supply is exempted from GST.
11. What action is required from Bella Petroleum Limited in respect to the spares destroyed by fire in February?
- (a) No action is required on the part of Bella Petroleum Limited under GST Law.
  - (b) Bella Petroleum Limited should report to jurisdictional GST Department for verification of the loss of inputs on account of fire.
  - (c) Bella Petroleum Limited should not avail ITC of tax paid on the spares.
  - (d) Bella Petroleum Limited should reverse the ITC availed on the same.
12. ABC Pvt. Ltd. exported a consignment of goods to M/s George, located in France in January, 2024 and paid applicable export duty. Due to quality issues, M/s George rejected the goods, and they were returned to ABC Pvt. Ltd. in October, 2024 without any resale involved. The proper officer passed the clearance order for the returned goods on 15<sup>th</sup> October, 2024. ABC Pvt. Ltd. applied for a refund of the export duty on 10<sup>th</sup> May, 2025. Is ABC Pvt. Ltd. eligible for the refund of export duty under section 26 of the Customs Act, 1962?
- (a) Yes, because the goods were returned within one year of export and not resold.
  - (b) No, because the refund application was filed beyond the time limit prescribed under section 26 of the Customs Act, 1962.
  - (c) Yes, because the refund application was filed within one year of re-import.
  - (d) No, because goods once exported are not eligible for duty refund under any circumstance.
13. Nandita Pvt. Ltd., registered under GST in the State of Rajasthan, is engaged in making various supplies of goods and services. It also has a branch located in Uttarakhand and a manufacturing unit in Jharkhand.

The company has provided the following transactions undertaken by Rajasthan office, for the month of January:

S. No.	Particulars	Amount (₹)
	<b>OUTWARD SUPPLY:</b>	
(i)	Entered into a forward contract for a commodity on the Multi Commodity Exchange (MCX) which was settled by netting off the difference between the forward rate and market rate on the settlement date in January itself	18,00,000
(ii)	Renting of dumpers including driver given for transport of minerals within the mining area in Jharkhand for a period of 2 years to Dhanvarsha Builders, registered in Jharkhand	11,50,000
(iii)	Manufactured the silk yarn from raw silk and supplied it to Gajodhar Traders, registered in Mumbai	80,00,000
(iv)	Amount received for accommodation services provided to 10 students preparing for UPSC. The said accommodation service is supplied for a continuous period of 6 months at a monthly rent of ₹ 20,000 per student.	2,00,000
(v)	Supplied branded electronic goods to a consignment agent -Suhasini Traders - in Jodhpur, Rajasthan. (Suhasini Traders issued an invoice using its own name while further supplying goods to customers.) Suhasini Traders supplied the goods of like kind and quality to the unrelated wholesalers in the States of Madhya Pradesh and Uttar Pradesh for ₹ 5,60,000 during the same month. Open market value is ₹ 5,40,000.	-
	<b>INWARD SUPPLY</b>	
(i)	Availed event management services from "White Frame Events" (registered in Rajasthan) for organising	5,50,000



	the company's product launch meet at a convention centre in Delhi.	
(ii)	Purchased high-capacity industrial machine from TechFab Engineering Ltd., a registered supplier based in Ranchi, Jharkhand to produce taxable items. As per the terms of the contract, parts of the machine were brought at the manufacturing unit located in Jharkhand and assembled and commissioned thereat and after recipient's inspection and approval, its delivery was completed.	2,00,000
(iii)	Purchased 3 electric scooters with engine capacity of 25 cc for use by its employees for commuting within the office premises and nearby client locations. Scooters were supplied in Jaipur by a GST-registered dealer located in Kerala.	1,80,000

The company provided the following additional information:

- (i) Some taxable goods were transferred to the company's branch located in Uttarakhand for promotional gifting by branch. Invoice value was ₹ 2,40,000, but open market value was ₹ 2,80,000.
- (ii) Nandita Pvt. Ltd. had secured a loan amounting to ₹ 120 crores in the month of April from Manimani Bank, Rajasthan. Penal charges amounting to ₹ 26,00,000 were levied by Manimani Bank in the month of January, in compliance with RBI directions, since Nandita Pvt. Ltd. failed to comply with the material terms and conditions of the loan contract.
- (iii) All the amounts given the question are exclusive of taxes, wherever applicable.
- (iv) All the inward supplies were used for taxable as well as exempted outward supplies.
- (v) There was no opening balance of any ITC for the relevant tax period.
- (vi) The company always chooses the most beneficial option for valuation of supplies made to agent and branches.

- (vii) Rates of CGST, SGST and IGST on all inward and outward supplies are 9%, 9% and 18% respectively.

Based on the information provided above, determine the following for Nandita Pvt. Ltd. (Rajasthan) for the month of January, providing brief reasoning thereof:

1. Eligible Input Tax Credit (ITC) available for set-off.
  2. Minimum net GST liability payable in cash (CGST and SGST or IGST, as the case may be).
14. Aakarsha Traders, a registered supplier under GST in Uttar Pradesh, had their GST registration cancelled retrospectively with effect from 1<sup>st</sup> September of current financial year. The cancellation order was passed on 15<sup>th</sup> September of current financial year. At the time of cancellation, the supplier had not availed ITC on certain eligible invoices issued in February and March of the preceding financial year for inward supplies of taxable goods on which ITC is otherwise available under GST law.

Subsequently, on filing an application for revocation, the cancellation of registration was revoked by the Proper Officer on 15<sup>th</sup> December of current financial year.

The firm wishes to file its GSTR-3B return for the month of September on 21<sup>st</sup> December of current financial year and wishes to claim ITC on the said invoices of February and March of preceding financial year in this return.

You are required to advise Aakarsha Traders whether it is entitled to claim input tax credit (ITC) in respect of invoices issued in February and March of the preceding financial year in terms of provisions of the GST law assuming that annual return for previous year is furnished on 31<sup>st</sup> December of the current financial year.

15. Arnav Enterprises, a registered supplier located in Madhya Pradesh, has duly filed its monthly GST returns for the financial year 2024–25. During the scrutiny of its returns for the said financial year in August 2025, the proper officer noticed an inadvertent short payment of CGST and SGST totaling ₹ 4,60,000 in the month of October 2024, on account of a

*bonafide* error. Before issuance of the show cause notice by the proper officer, Arnav Enterprises paid the tax of ₹ 1,00,000 (₹ 50,000 CGST and ₹ 50,000 SGST) on the basis of its own ascertainment along with applicable interest and with penalty, if any, on 15<sup>th</sup> September 2025 and informed the proper officer in writing of such payment.

Based on the facts above, answer the following:

- (1) Ascertain the last date by which show cause notice can be issued by the proper officer for the amount of tax short paid by Arnav Enterprises.
- (2) Determine the amount of penalty, if any, payable on the payment of tax of ₹ 1,00,000 by Arnav Enterprises on the basis of its own ascertainment along with applicable interest on 15<sup>th</sup> September 2025.
- (3) Assuming that the proper officer decides to issue a show cause notice under section 74A on 10<sup>th</sup> October 2025, determine the maximum amount of tax for which he can issue the show cause notice. Ascertain the last date by which the proper officer should issue order under section 74A assuming that show cause notice is issued by proper officer on said date.
- (4) In continuation of sub-part (3) above, if proper officer issues a show cause notice under section 74A on 10<sup>th</sup> October, 2025 for the amount of tax so allowed and Arnav Enterprises decides to pay said tax along with applicable interest, on 5<sup>th</sup> December, 2025, you are required to determine penalty, if any, payable by Arnav Enterprises.

In each of the above cases, will your answer be different if the short payment of tax is on account of fraud, other facts remain the same?

Note – Assume that the due date for furnishing annual return has not been extended and limitation period for issuance of order under section 74A has not been extended by the Commissioner. Ignore computation of interest in the above question.

16. The Appellate Authority (AA) passed an order against Venue Automobiles Pvt. Ltd. demanding IGST of ₹ 1,200 crore. Venue Automobiles Pvt. Ltd. wishes to file an appeal against the order of the

AA. The company admits the liability of ₹ 100 crore but wishes to litigate the balance demand amount and thus, files an appeal to the Appellate Tribunal.

You are required to determine the amount of the pre-deposit, which is required to be paid by Venue Automobiles Pvt. Ltd. for filing the appeal.

17. ABC Insurance Ltd., a registered insurer in Maharashtra, is engaged in providing insurance services. During the current financial year, the company entered into following transactions:

- (i) ABC Insurance Ltd. enters into a co-insurance agreement with XYZ Insurance Ltd. where ABC Insurance Ltd. is the lead insurer. The insured – Gyaati Industries- pays a total premium of ₹ 50,00,000 which is apportioned by the lead insurer - ABC Insurance Ltd. between itself and XYZ Insurance Ltd. in the ratio of 60:40 for the insurance services jointly supplied by them to Gyaati Industries. ABC Insurance Ltd. agrees to discharge the entire GST liability on the full amount of premium received from Gyaati Industries.
- (ii) A large industrial plant needs an insurance worth ₹ 500 crore. It approaches ABC Insurance Ltd. for the same. However, since ABC Insurance Ltd. is unable to underwrite the entire risk alone, it enters into a reinsurance agreement with a reinsurer - PQR Insurance Ltd. The total premium charged is ₹ 50 lakh. The insurer - ABC Insurance Ltd. pays a reinsurance premium of ₹ 20 lakh to PQR Insurance Ltd. This allows ABC Insurance Ltd. to manage its risk and financial exposure. While paying this amount to PQR Insurance Ltd., ABC Insurance Ltd. deducts a ceding commission of ₹ 1,00,000 which it has charged for the services it provides to PQR Insurance Ltd. PQR Insurance Ltd. pays GST on the gross reinsurance premium including the ceding commission.

Based on the provisions of Schedule III of the CGST Act, 2017, discuss whether the following activities amount to supply:

- (a) Apportionment of co-insurance premium by ABC Insurance Ltd. to XYZ Insurance Ltd. for the insurance services jointly supplied by them to Gyaati Industries.

- (b) Services by ABC Insurance Ltd. to PQR Insurance Ltd. for which ceding commission is deducted from reinsurance premium paid by ABC Insurance Ltd. to PQR Insurance Ltd.

18. Suhasi Electronics Pvt. Ltd., an importer, who availed the benefit of the notification imported the raw materials for manufacturing LED panels. No condition or time period has been specified in the notification in relation to re export of unutilized or defective goods, so imported. The goods were imported on 10<sup>th</sup> February, 2024.

However, a small portion of the goods received were found to be defective and remained unutilized due to a production shift in the company. Suhasi Electronics approached you to obtain advice for dealing with these defective and unutilized goods.

On the basis of provisions of the Customs (Import of Goods at Concessional Rate of Duty or for Specified Purposes) Rules, 2022 as amended, you are required to discuss:

- (a) Whether Suhasi Electronics can re-export these unutilised or defective goods? If yes, what is the maximum permissible time period, in which Suhasi Electronics can re-export the goods?
  - (b) What are the conditions applicable in case of re-export of goods?
  - (c) If Suhasi Electronics chooses to clear the goods for home consumption, explain the procedure for the same.
19. Mr. Fedrick imported second-hand goods from a supplier in the United Kingdom by air under a CIF contract. As part of the transaction, vendor inspection charges amounting to £ 600 were incurred. This inspection is carried out by the foreign supplier on his own and were neither contractually agreed nor essential for making the goods ready for shipment. Additionally, a commission is payable to a local agent in India, calculated at 1% of the FOB (Free on Board) value in Indian currency.

The bill of entry was filed on 18<sup>th</sup> February, on which date the basic customs duty rate was 10%, and the exchange rate notified by CBIC was ₹ 102 per UK Pound. The aircraft carrying the goods arrived on 15<sup>th</sup> February, when the customs duty rate was 15%, and the CBIC-

notified exchange rate was ₹ 98 per UK Pound. The inter-bank exchange rate prevailing on both dates was ₹ 106 per UK Pound.

However, the transaction underwent multiple price revisions due to fluctuations in international market rates between the date of contract and actual importation. Eventually, both parties settled on a negotiated price payable as follows:

Particulars	Contract Price (£)	Changed Price (£)	Negotiated Price (£)
CIF Value	5,200	5,900	5,500
Air Freight	400	600	500
Insurance	450	750	600

Compute the assessable value of second hand goods.

20. KW Fuels Pvt. Ltd. imported High Spirit Diesel (HSD) and stored it in a public warehouse. An ex-bond bill of entry for home consumption was filed and applicable customs duty was paid based on the rate prevalent on the date of presentation of such bill of entry. The proper officer passed an order for clearance for home consumption.

Owing to the highly inflammable nature of the commodity, the importer made an application to permit the storage of such diesel in the same warehouse until actual clearance for sale/use. The application was allowed. At the time of actual removal of goods from the warehouse, the rate of duty had been revised upwards.

The Department, invoking the revised duty rate, demanded payment of the differential duty on the ground that the goods were removed at a time when the higher rate was in effect. KW Fuels Pvt. Ltd. has contested the legitimacy of this demand.

Critically examine the validity of the Department's demand in light of the provisions of the Customs Act, 1962 and relevant judicial ruling, if any.


**SUGGESTED ANSWERS**

Question No.	Answer
1.	(c) Value of taxable supply – ₹ 13,50,000; Gross tax liability – ₹ 1,73,160
2.	(d) Value of taxable supply – ₹12,50,000; Gross tax liability – ₹ 1,81,800
3.	(a) The gross tax liability of Retail Showroom (without considering input tax credit) for the month of October is ₹ 89,160.
4.	(a) Nagpur unit - ₹ 1,08,000; Mumbai unit – Nil
5.	(b) Nagpur unit - ₹ 1,85,00,000; Mumbai unit – ₹ 75,04,500
6.	(c) The Mumbai unit can file an appeal with the Appellate Authority on or before January 24 of the next year.
7.	(c) required for both Puducherry and Goa
8.	(b) ₹ 300
9.	(d) ₹ 11,820.
10.	(a) nil as the transaction is not a supply.
11.	(c) Bella Petroleum Limited should not avail ITC of tax paid on the spares.
12.	(b) No, because the refund application was filed beyond the time limit prescribed under section 26 of the Customs Act, 1962.

**13. Computation of minimum net GST payable in cash by Nandita Pvt. Ltd. for the month of January**

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
(i)	Forward derivatives contract [Forward derivative	18,00,000	-	-	-

	contracts where the settlement takes place by netting off the difference between the forward rate and market rate qualify as securities. Hence, they are neither goods nor services in terms of definitions of goods and services under sections 2(52) and 2(102). Thus, given transaction is not a supply.]				
(ii)	Renting of dumpers to Dhanvarsha Builders [Not specifically exempt. Further, it is an inter-State supply since place of supply provided to registered person is location of recipient, i.e. Jharkhand.]	11,50,000			2,07,000 [11,50,000 × 18%]
(iii)	Supply of silk yarn [Tax on silk yarn supplied by a person who manufactures it from raw silk to a registered person is payable under reverse charge by the recipient. Thus, tax is payable by Gajodhar Traders.]	80,00,000	-	-	



(iv)	Accommodation service provided to students [Supply of accommodation services having value of supply less than or equal to ₹ 20,000 per person per month is exempt provided that the accommodation service is supplied for a continuous period of atleast 90 days.]	2,00,000	-	-	-
(v)	Supply of goods to an agent [Supply of goods by the company to agent qualifies as supply in terms of para 3 of Schedule I of the CGST Act, 2017 since agent issues invoice to customers in its own name. Further, it is an intra-State supply since place of supply is location where movement of goods terminates, viz. Rajasthan. Moreover, value of supply of goods to	5,04,000	45,360 [5,04,000 × 9%]	45,360 [5,04,000 × 9%]	

	<p>agent is:</p> <p>(i) Open Market Value (₹ 5,40,000)</p> <p>or</p> <p>(ii) 90% of the price of goods of like kind and quality charged by recipient to unrelated customer ₹ 5,04,000 (₹ 5,60,000 × 90%),</p> <p>at the option of supplier [Rule 29].</p> <p>Since the company wishes to choose most beneficial option, least of the two values has been taken.]</p>				
(vi)	<p>Inter-State transfer of taxable goods to Uttarakhand branch</p> <p>[ITC of goods received for promotional gifting is not available to branch, as ITC in respect of goods disposed of by way of gift or free samples is blocked in terms of section 17(5)(h).</p> <p>Since recipient -branch - is not eligible for full ITC and goods are not intended for further</p>	2,80,000			<p>50,400</p> <p>[2,80,000 × 18%]</p>

	supply as such by it, value of supply of said goods shall be open market value (Rule 28).]				
(vii)	Penal charges [Penal charges levied by regulatory entities including banks, in compliance with RBI directions are essentially in the nature of charges for breach of terms of contract and hence, no GST is payable on the same <sup>1</sup> .]	26,00,000			
	<b>Total output tax</b>		<b>45,360</b>	<b>45,360</b>	<b>2,57,400</b>
	Less: ITC available for set off [Refer Working note below]		9,340	9,340	6,172
	<b>Minimum net GST payable in cash (rounded off)</b>		<b>36,020</b>	<b>36,020</b>	<b>2,51,228</b>

**Working Note - Computation of eligible ITC available for set off**

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
	Event management services availed [It is intra-State supply as place of supply of	5,50,000	49,500 [5,50,000 × 9%]	49,500 [5,50,000 × 9%]	

<sup>1</sup> Circular No. 245/02/2025 GST dated 28.01.2025

	event management services provided to registered person is location of recipient, i.e. Rajasthan. Further, ITC of services used in course or furtherance of business is available.]				
	Machine purchased [It is intra-State supply since place of supply in case of goods not involving movement of goods is location of goods at the time of delivery to recipient, viz. Jharkhand. However, ITC of the same will not be available since the recipient of said intra-State supply is located in a different State than that of place of supply <sup>2</sup> .]	1,00,000	-	-	-
	Electric scooters purchased [It is inter-State supply since place of supply is Jaipur and supplier is in Kerala. Further, ITC on two-	1,80,000			32,400 [1,80,000 × 18%]

<sup>2</sup> Circular No. 170/02/2022 GST dated 06.07.2022

	wheelers with engine capacity upto 25cc, used in course or furtherance of business, is not blocked in terms of section 17(5)(a) since they are excluded from the definition of motor vehicle.]				
	<b>Total ITC</b>		<b>49,500</b>	<b>49,500</b>	<b>32,400</b>
	<b>Computation of eligible ITC available for set-off</b>				
	Common credit [All inward supplies are used commonly for exempt and taxable supplies.]		49,500	49,500	32,400
	Less: ITC attributable to exempt supplies [Common credit x (Exempt turnover/ Total turnover)] to be reversed  ₹ [Common credit × 82,18,000/1,01,52,000] – Refer note below		(40,070)	(40,070)	(26,228)
	<b>Eligible ITC available for set off</b>		<b>9,430</b>	<b>9,430</b>	<b>6,172</b>

**Note** - As per section 17(3), value of exempt supply includes supplies on which the recipient is liable to pay tax on reverse charge basis and transactions in securities. As per explanation to Chapter V of the CGST Rules, the value of exempt supply for security is 1% of the sale value of such security.

Therefore, value of exempt supply in the given case will be the sum of value of output supply on which tax is payable under reverse charge (₹ 80,00,000), accommodation service provided to students (₹ 2,00,000), and value of supply of securities (1% of ₹ 18,00,000 = ₹ 18,000), which comes out to be ₹ 82,18,000.

Total turnover = ₹ 1,01,52,000 (₹ 18,000 + ₹ 11,50,000 + ₹ 80,00,000 + ₹ 2,00,000 + ₹ 5,04,000 + ₹ 2,80,000)

**14.** As per section 16(6), where:

- the registration of a registered person is cancelled under section 29,
- and subsequently cancellation is revoked by any order under section 30,
- and availment of ITC was not restricted under section 16(4) on the date of cancellation,

then such person is entitled to take ITC on such invoice or debit note in a return under section 39:

- (i) filed up to 30<sup>th</sup> November following the financial year to which such invoice or debit note pertains, or date of furnishing annual return, whichever is earlier; or
- (ii) for the period from the date of cancellation of registration or the effective date of cancellation of registration, as the case may be, till the date of order of revocation of cancellation of registration, where such return is filed within 30 days from the date of order of revocation of cancellation of registration

whichever is later.

In view of the aforementioned legal provisions in the given case, Aakarsha Traders is entitled to claim input tax credit (ITC) in respect of invoices issued in February and March of the preceding financial year in a return under section 39:

- (i) filed up to 30<sup>th</sup> November of current financial year

or

- (ii) return filed for the period from effective date of cancellation of registration till the date of order of revocation of cancellation of registration, within 30 days of revocation of cancellation i.e., up to 14<sup>th</sup> January

whichever is later.

Thus, Aakarsha Traders is entitled to claim input tax credit (ITC) in respect of invoices issued in February and March of the preceding financial year in the return for the month of September furnished on 21<sup>st</sup> December of current financial year.

- 15. (1)** The proper officer can issue a show cause notice within 42 months from the due date of furnishing the annual return for relevant financial year to which short payment relates to [Section 74A(2)]. For the financial year 2024–25, the due date for furnishing the annual return is 31<sup>st</sup> December, 2025. Therefore, the last date by which show cause notice can be issued by the proper officer for the amount of tax short paid by Arnav Enterprises is 30<sup>th</sup> June 2029.

Further, section 74A stipulates the same limitation period for issuance of show cause notice whether the short payment is on account of fraud or on account of a bonafide error. Thus, answer will remain same if the short payment of tax is on account of fraud.

- (2)** The person chargeable with tax where any tax has been short paid, may, before service of show cause notice, pay the amount of tax along with interest payable under section 50 of such tax on the basis of his own ascertainment of such tax and inform the proper officer in writing of such payment, and the proper officer, on receipt of such information shall not serve any show cause notice in respect of the tax so paid or any penalty payable under the provisions of the CGST Act or the rules made thereunder [Section 74A(8)(i)].

Thus, no penalty is payable by Arnav Enterprises in respect of payment of tax of ₹ 1,00,000 before issuance of show cause notice. No show cause notice will be issued by the proper officer in respect of the tax of ₹ 1,00,000 so paid.

However, in case where the short payment of tax is on account of fraud, the person chargeable with tax, may before service of show cause notice, pay the amount of tax along with interest payable under section 50 and a penalty equivalent to 15% of such tax on the basis of his own ascertainment of such tax or the tax as ascertained by the proper officer and inform the proper officer in writing of such payment, and the proper officer, on receipt of such information, shall not serve any show cause notice, in respect of the tax so paid or any penalty payable under the provisions of the CGST Act or the rules made thereunder [Section 74A(9)(i)].

Thus, a penalty of ₹ 15,000 [ $₹ 1,00,000 \times 15\%$ ] is payable by Arnav Enterprises alongwith payment of tax of ₹ 1,00,000 with applicable interest, before issuance of show cause notice. No show cause notice will be served by the proper officer after payment of tax alongwith interest and penalty, in respect of the tax so paid.

- (3) Since Arnav Enterprises has paid the tax of ₹ 1,00,000 alongwith interest before issuance of show cause notice, no show cause notice will be issued by the proper officer in respect of the tax so paid [Section 74A(8)(i)].

However, where the proper officer is of the opinion that the amount paid under section 74A(8)(i) falls short of the amount actually payable, he shall proceed to issue the show cause notice in respect of such amount which falls short of the amount actually payable [Section 74A(10)].

Thus, in the given case, the proper officer will issue the notice for the remaining tax of ₹ 3,60,000 [ $₹ 4,60,000 - ₹ 1,00,000$ ].

In case where the short-payment is on account of fraud, answer will be as follows:

Since Arnav Enterprises has paid the tax of ₹ 1,00,000 alongwith applicable interest and penalty before issuance of show cause notice, no show cause notice will be issued by the proper officer in respect of the tax so paid [Section 74A(9)(i)].

However, where the proper officer is of the opinion that the amount paid under section 74A(9)(i) falls short of the amount



actually payable, he shall proceed to issue the show cause notice in respect of such amount which falls short of the amount actually payable [Section 74A(10)].

Thus, in the given case, the proper officer will issue the notice for the remaining tax of ₹ 3,60,000 [₹ 4,60,000 - ₹ 1,00,000].

Further, the proper officer is required to issue the order within 12 months from the date of issuance of show cause notice, in both fraud and non-fraud cases [Section 74A(7)]. Thus, in the given case, the proper officer has to issue the order on or before 10<sup>th</sup> October, 2026, whether the short payment is on account of fraud or on account of a bonafide error.

- (4) Where the person chargeable with tax, where any tax has been short paid, pays the said tax along with interest payable under section 50 within 60 days of issue of show cause notice, and on doing so, no penalty shall be payable and all proceedings in respect of the said notice shall be deemed to be concluded [Section 74A(8)(ii)].

Thus, in the given case, since Arnav Enterprises has paid the tax of ₹ 3,60,000 alongwith applicable interest within 60 days of issuance of show cause notice, i.e. on or before 9<sup>th</sup> December, 2025, no penalty shall be payable and all proceedings in respect of the said notice shall be deemed to be concluded.

In case where the short-payment is on account of fraud, answer will be as follows:

Where the person chargeable with tax, where any tax has been short paid, pays the said tax along with interest payable under section 50 and a penalty equivalent to 25% of such tax within 60 days of issue of the notice, and on doing so, all proceedings in respect of the said notice shall be deemed to be concluded [Section 74A(9)(ii)].

Thus, in the given case, Arnav Enterprises has to pay penalty of ₹ 90,000 [₹ 3,60,000 × 25%]. If Arnav Enterprises has paid the tax of ₹ 3,60,000 alongwith applicable interest and penalty of ₹ 90,000 [₹ 3,60,000 × 25%] on 5<sup>th</sup> December, 2025, which is within 60 days of issuance of show cause notice, i.e. on or before 9<sup>th</sup> December,

2025, all proceedings in respect of the said notice shall be deemed to be concluded.

- 16.** Section 112(8) lays down that no appeal can be filed before the Appellate Tribunal, unless the appellant deposits:
- (a) full amount of tax, interest, fine, fee and penalty arising from the impugned order, as is admitted by him, and
  - (b) 10% of the remaining amount of tax in dispute, in addition to the amount deposited before the AA, arising from the said order, subject to a maximum of ₹ 20 crore (₹ 40 crore in case of IGST), in relation to which appeal has been filed.

Accordingly, in the given case, the amount of pre-deposit to be made by Venue Automobiles Pvt. Ltd. for filing the appeal to the Appellate Tribunal is computed as under-

- (i) Full amount of tax, interest and penalty as admitted by the company,  
i.e. ₹ 100 crore and
- (ii) 10% of the tax in dispute, i.e. ₹ 110 crore (10% of ₹ 1,100 crore) subject to a maximum of ₹ 40 crore

Therefore, total pre-deposit to be made by the company before filing an appeal in the Appellate Tribunal is ₹ 100 crore (total liability admitted by the company) plus ₹ 40 crore, i.e. ₹ 140 crore<sup>3</sup>.

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<sup>3</sup> Since GST Tribunal has not yet become functional, Venue Automobiles Pvt. Ltd. decides to make the payment of an amount equal to the amount of pre-deposit on the GST portal and to file an undertaking/ declaration with the jurisdictional proper officer that it will file appeal against the order of the Appellate Authority before the Appellate Tribunal, as and when it comes into operation. Circular No. 224/18/2024 GST dated 11.07.2024 has clarified that if the taxpayer files an undertaking/ declaration with the jurisdictional proper officer that he will file appeal against the impugned order of the Appellate Authority before the Appellate Tribunal, as and when it comes into operation, within the prescribed timelines and on payment of said amount equal to the amount of pre-deposit (which will be adjusted against the amount of pre-deposit required to be deposited at the time of filing appeal before the Appellate Tribunal), recovery of the remaining amount of confirmed demand as per the order of the appellate authority will stand stayed.

- 17. (a)** As per para 9 of Schedule III of the CGST Act, 2017, activity of apportionment of co-insurance premium by the lead insurer to the co-insurer for the insurance services jointly supplied by the lead insurer and the co-insurer to the insured is neither supply of goods nor supply of services and hence no GST is charged on the apportionment transaction.

However, the lead insurer (ABC Insurance Ltd.) is required to pay the entire GST (CGST and SGST or IGST, as applicable) on the full premium amount paid by the insured – Gyati Industries, of ₹ 50,00,000. The co-insurer – XYZ Insurance Ltd. does not pay GST on its share of the premium separately.

- (b)** As per para 10 of Schedule III of the CGST Act, 2017, services by insurer to the reinsurer for which ceding commission or the reinsurance commission is deducted from reinsurance premium paid by the insurer to the reinsurer is neither supply of goods nor supply of services, subject to the condition that the central tax, the State tax, the Union territory tax and the integrated tax is paid by the reinsurer on the gross reinsurance premium payable by the insurer to the reinsurer, inclusive of the said ceding commission or the reinsurance commission.

However, the reinsurer (PQR Reinsurers Ltd.) is liable to pay GST on the gross reinsurance premium payable by the insurer (₹ 20 lakh), inclusive of the ceding commission (₹ 1 lakh).

- 18. (a)** As per rule 10 of the Customs (Import of Goods at Concessional Rate of Duty or for Specified Purposes) Rules, 2022 as amended, the importer who has availed the benefit of a notification shall use the goods imported in accordance with the conditions mentioned in the concerned notification within the period and with respect to unutilised or defective goods, so imported, the importer shall have an option to either re-export or clear the same for home consumption.

Thus, Suhasi Electronics Pvt. Ltd. can re-export such defective and unutilized goods.

The re-export or home clearance must be made within –

- (i) within the period specified in the notification;

- (ii) within one year from the date of import, where the time period is not specified in the notification:

However, the said period of one year can be further extended by the jurisdictional Commissioner for a period not exceeding 3 months, if sufficient reason is shown that the causes for not conforming to the time period were beyond the importer's control.

So, re-export can be made by 9<sup>th</sup> February, 2025 in this case as no condition or time period has been specified in the notification in relation to re export of unutilized or defective goods, so imported.

Further, the date of re-export can be extended by the jurisdictional Commissioner upto 3 months.

**(b) Conditions applicable for re-export of goods:**

- (i) Re export of the unutilized or defective goods shall be recorded by the importer in the quarterly statement by providing the details of necessary export documents.
- (ii) The value of such goods for re-export shall not be less than the value of the said goods at the time of import.

**(c) If Suhasi Electronics opts to clear the goods for home consumption:**

- It can make voluntary payment of applicable customs duties along with interest on the common portal.
- The details of such duty payment and clearance must be disclosed in the importer's quarterly statement.

**19. Computation of custom duty payable**

Particulars	Amount
CIF value (negotiated price) [Note-1]	5,500 £
Less: Air freight	500 £
Less: Insurance	<u>600 £</u>
FOB value	4,400 £

	₹
FOB Value (in ₹) [4,400 £ x ₹ 102] [Note-2]	4,48,800
Add: Vendor inspection charges [Note-3]	Nil
Add: Commission payable to local agent [1% of FOB value] [Note-4] = (US \$ 4,400 × ₹ 102) × 1%	<u>4,488</u>
FOB value as per Customs	4,53,288
Freight [Note-5] [500 £ x ₹ 102]	51,000
Insurance [Note-6] [600 £ x ₹ 102]	<u>61,200</u>
Assessable value	5,65,488
Add: Basic custom duty @ 10% [Note-7] – rounded off	56,548.80
Social Welfare Surcharge (10% of ₹ 56,548.80) [rounded off]	<u>5,655</u>
Customs duty payable [rounded off]	62,204

**Notes:**

1. As per section 14 of the Customs Act, 1962, the value of the imported goods is the transaction value, which means the price actually paid or payable for the goods. In this case, since the contract was re-negotiated and the importer paid the re-negotiated price, the transaction value would be such re-negotiated price and not the contract price.
2. Rate of exchange notified by CBIC on the date of filing of bill of entry will be considered as per third proviso to section 14 of the Customs Act, 1962.
3. Only the payments actually made as a condition of sale of the imported goods by the buyer to the seller are includible in the assessable value under rule 10(1)(e) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. Charges of vendor inspection on the goods carried out by foreign supplier on his own and not required for making the goods ready for shipment, are not includible in the assessable value of the imported goods [*Bombay Dyeing & Mfg. v. CC 1997 (90) ELT 276 (SC)*].

4. Commission paid to local agent (since it is not buying commission) is includible in the assessable value on the presumption that local agent has been appointed by the exporter [Rule 10(1)(a)(i) of the Customs Valuation Rules].
  5. Actual amount incurred towards freight will be considered since freight is not more than 20% of FOB value [Fifth proviso to rule 10(2) of Customs Valuation Rules].
  6. Actual insurance charges paid are includible in the assessable value as per rule 10(2)(b) of the Customs Valuation Rules.
  7. As per proviso to section 15 of the Customs Act, 1962, rate of duty will be the rate in force on the date of presentation of bill of entry or on the date of arrival of the aircraft, whichever is later.
- 20.** No, the demand raised by the Department is not valid. Section 49 of the Customs Act, 1962 *inter alia* provides that imported goods entered for home consumption if stored in a public warehouse, or in a private warehouse on the application of the importer and if the same cannot be cleared within a reasonable time, shall not be deemed to be warehoused goods for the purposes of this Act, and accordingly the provisions of Chapter IX shall not apply to such goods.

The facts of the given situation are also similar to the case of *CCus vs. Biecco Lawrie Ltd. 2008 (223) ELT 3 (SC)* wherein the Supreme Court has held that where duty on the warehoused goods is paid and out of charge order for home consumption is made by the proper officer in compliance of the provisions of section 68 of the Customs Act, the goods allowed to be retained for storage in the warehouse as permitted under section 49 of the Customs Act are not treated as warehoused goods and importer would not be required to pay anything more.

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## PAPER – 6

# INTEGRATED BUSINESS SOLUTIONS

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### QUESTIONS

#### Case Study - 1

#### CLASSIC DEALERSHIP

Two brothers, Ravi and Raju Sinha established Classic Dealership (CD), a partnership that is a bike dealership with its main office in Mumbai. The dealership imports premium bikes from countries like China, Taiwan, Japan, Germany among others. These are luxury bikes, that are purchased by avid bikers who ride them extensively for recreational and off-road adventures. The dealership has state of art service network that is spread all across India to take care of after sale service and maintenance of bikes. Both brothers are active working partners in the business.



Ravi Sinha is of the opinion that "the purpose of a business is to acquire and retain a customer. In order to run a profitable and sustainable business, we must be able to determine the net profit that can be attributed to the future relationship with a customer. "

Based on the buying preferences and culture, the dealership categorises its loyal customers into two categories: Good and Excellent.

#### Customer profile for imported bikes

Age analysis of customers taken by CD reveals a general statistical estimate that a person may become the first customer by buying a bike when he attains 20 years of age and rides bikes until he reaches the age of 40 years and 3

months. It is further observed that the "Good" category customers would not prefer waiting to purchase the bike beyond 5 years.

Relevant details pertaining to the sale price and profit margin from the sale of imported bikes are given in Annexure 1.

### **Brand endorsement to increase the share of "Excellent" customers for the sale of imported bikes**

Ravi came up with the idea of engaging Formula 1 bike racing icons to promote the bikes that are being imported. This brand endorsement would cost the dealership ₹ 25 crore over a period of time. Ravi, a conservative analyst by nature predicts that this brand endorsement is likely to turn 500 customers who attain 30 years of age, and who are bound to be otherwise "Good" customers into "Excellent" customers.

### **Dealership of Electric Bikes**

Due to its clean energy technology, low pollution emission, the popularity of electric bikes is increasing within India. Currently, Coco Motors Limited, Zoho Motors Limited and Polo Motors Limited are three companies who manufacture bikes for the domestic market. Although the market is still in its nascent stage, Raju Sinha expects electric bikes to become popular very soon. The market for imported bikes caters to a niche market primarily consisting of avid bikers. Electric bikes can cater to a larger customer segment ranging since these bikes can be used for regular daily commute, which is a very basic requirement for a large section of the population within India. Therefore, the market for these bikes will be much larger as compared to imported bikes. Therefore, Raju Sinha proposes to that CD should start a dealership of such electric bikes in the upcoming year 2026-27.

While both partners are enthusiastic about the proposal, they wish to make a thorough analysis of this venture. Being still nascent in India, electric bike market can be subject to a lot of risks and volatility. Hence, they initially plan to start this venture only for 4 years and extend it if found successful. Further, they wish to do a sensitivity analysis of the project to understand the impact of fluctuations on initial project cost, annual cash inflow and cost of capital. Details of the project are given in Annexure 2.



**Strategy to maintain sustained customer relationship for electric bikes**

CD aims to be build a large dealership of electric bikes. In order to develop and maintain customer relationship, it plans the following measures to appeal to and appease them. Firstly, CD plans to increase public awareness about the environmental benefits of using electric bikes. This will appeal to the environmentally conscious customers. Secondly, CD's sales and marketing team feel that electric bikes would be most appealing to youth and young professionals below 35 years of age. For this segment the team determines that owning a car would not yet have become necessary. Further, CD plans to use digital marketing to reach out to potential customers across India. In Addition to above strategic measures, CD also plans to provide annual maintenance contracts for these electric bikes. Hence, their sales team is being trained to cross sell these AMCs at attractive rates, once the warranty period for the electric bike is over.

**Remuneration to partners for FY 2025-26 as authorized by the partnership deed**

Classic Dealership has earned a net profit of ₹ 11 crores for the year ended 31<sup>st</sup> March, 2025. This is before deduction of certain items. These items include Salary of ₹ 5,00,000 each per month payable to the working partners Ravi and Raju Sinha. This has been authorized by the deed of partnership. Additionally, Depreciation on plant and machinery under section 32 (computed) ₹ 8 crores, has not yet been deducted. The profit also does not account for Interest on capital @15% per annum as per the deed of partnership. The amount of capital eligible for interest is ₹ 10 crores. Further, When Classic Dealership was incorporated, the partnership deed allowed a salary payout to each of the working partners only to the extent of ₹ 2,00,000 each per month. The partnership deed was amended on 1<sup>st</sup> April 2024 to allow for salary payment of ₹ 5,00,000 each per month payable to Ravi and Raju. The current amended partnership deed also allowed for a salary payout of ₹ 25,00,000 each to Ravi and Raju as extra payment towards salary of the previous years that is prior to F.Y. 2024-25.

**Warranty replacement of electric bike or its parts and repair services during warranty period**

As proposed, CD started a dealership of electric bikes- manufactured by Coco Motors Limited, Zoho Motors Limited and Polo Motors Limited from

April 1, 2026. During the warranty period CD replaces certain parts or provides services to its customers on behalf of the manufacturers.

As per the arrangement with Coco Motors Limited, CD replaces the bikes or its parts to the customer under warranty either by using its stock or by buying from a third party vendor. It charges the consideration for the part(s) so replaced from Coco Motors Limited, by the issuance of a tax invoice, for the said supply made by itself to the company.

Whereas in the case of Zoho Motors Limited, CD raises a requisition to the manufacturer for the bike or its parts to be replaced by it under warranty. Zoho Motors Limited then provides the bike or its parts to CD for the purpose of such replacement to the customer as part of warranty without separately charging any consideration at the time of such replacement.

As per the terms with Polo Motors Limited, CD replaces the bike or its part(s) to the customer under warranty out of the supply already received by it from the company. Polo Motors Limited then issues a credit note in respect of the bike or part(s) so replaced subject to the provisions of section 34(2) of the CGST Act, 2017.

Further, CD provides repair services in addition to replacement of bike or its parts to the customer without any consideration, as part of warranty. This is done for bikes sold on behalf of all the three manufacturers Coco Motors Limited, Zoho Motors Limited and Polo Motors Limited. CD then charges the respective manufacturer for such repair services either by way of issue of tax invoice or a debit note.

### **Extended warranty**

Extended warranty is a service or maintenance agreement that provides against unexpected repair or break-down after the initial warranty period expires. Extended warranty can be availed by the customers either at the time of original supply or at any other time different from the original supply. Due to the cross selling efforts of the sales and marketing team at CD, almost 60% of the customers purchase the extended warranty from CD at the time of original supply. Many of the other customers purchase the extended warranty from CD after the original warranty period has ended. Yet few other customers prefer to purchase extended warranty from service providers other than CD.

Mr. Ravi has recently won a lottery prize this year and wishes to remit USD 30,000 from his lottery winnings to his son abroad. Also, he intends to obtain USD 50,000 to facilitate the travel expenses of a cultural troupe that he plans to send on a tour of the United States. Mr. Ravi approached CA. Abhishek, a well renowned expert and practitioner in foreign currency transactions and corporate laws, seeking consultation on above two important matters.

**Annexure 1: Sale price and Profit margin from sale of imported bikes**

<b>Summary Analysis of Sale price and Profit margin from sale of imported bikes:</b>			
<b>Type of customer</b>	<b>Periodicity of buying</b>	<b>Selling Price per bike</b>	<b>Service/Maintenance charges</b>
Good	1 bike every 5 years	₹ 6,00,000	₹ 1,00,000 per bike
Excellent	7 bikes as a whole from the date of his first buying	₹ 9,00,000	₹ 1,20,000 per bike per year

<b>Profit margin:</b>		
<b>Profit margin</b>	<b>Good</b>	<b>Excellent</b>
On sale of each bike	25%	30%
On service / maintenance charges	50%	60%

**Annexure 2: Project details of dealership in electric vehicles**

<b>Dealership in Electric Vehicles</b>
<b>Project Overview:</b> <p>With the rise of clean energy technologies and increasing concerns about pollution, electric bikes are gaining rapid popularity in India. These eco-friendly vehicles offer a sustainable solution for daily commuting, appealing to a much broader market than imported premium bikes, which cater mainly to niche biking enthusiasts.</p>

**Key Financials:**

Particulars	Details
Initial Project cost	₹ 13 crores
Annual Cash Inflow	₹ 5 crores
Project Life	4 years
Cost of capital	10%

Annuity factor for 10% for 4 years is 3.169, Annuity factor for 11% for 4 years is 3.103.

**Strategic Highlights:**

One of the key strategic advantages of entering the electric bike dealership market at this stage is the first-mover advantage. By establishing an early presence particularly in underdeveloped or semi-urban regional markets the venture can capitalize on limited competition, quickly building brand recognition and customer loyalty. These areas are often underserved, presenting an untapped opportunity for growth.

**Multiple Choice Questions**

- 1.1 With reference to CD's different efforts to maintain sustained customer relationship for electric bikes, categorize them to the most appropriate term of Customer Lifetime Value:

Sr. No.	Effort to maintain sustained customer relationship	Sr. No.	Appropriate term	CLV
i	Offering attractive options to exchange old electric bikes for newer one.	A	Customer Selection	
ii	Target youth and young professionals below 35 years	B	Customer Extension	
iii	Digital marketing to reach out to customers across India	C	Customer Retention	
iv	Cross selling annual maintenance contracts at attractive rates once the warranty period is over.	D	Customer Acquisition	

**Options:**

- (a) (i) – C, (ii) – A, (iii) – D and (iv) – B
- (b) (i) – A, (ii) – C, (iii) – D and (iv) – B
- (c) (i) – C, (ii) – A, (iii) – B and (iv) – D
- (d) (i) – D, (ii) – A, (iii) – C and (iv) – B

1.2 Ritwik Jain is an accountant working with classic dealership. He is computing the taxable income for the partnership for A.Y. 2025-26. He needs your help to with various tax calculations and other tax issues relating to A.Y. 2025-26. Which of the following statements are false?

- (i) No TDS is required to be deducted on salary and interest payments made to the working partners
- (ii) With respect to salary paid to the working partners, Ravi and Raju for the financial year 2024-25, the maximum allowable deduction under section 40(b)(v) is ₹ 1.098 crores for A.Y. 2025-26
- (iii) The extra salary payment made to Ravi and Raju as additional salary of the previous years that is prior to F.Y. 2024-25 is a deductible expense in A.Y. 2025-26 as it has been approved by the partnership deed on 1<sup>st</sup> April 2024
- (iv) With respect to salary paid to the working partners, Ravi and Raju for the financial year 2024-25, the maximum allowable deduction under section 40(b)(v) is ₹ 91.80 lakhs for A.Y. 2025-26

**Options:**

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

1.3 For arrangements made with Coco, Zoho and Polo motors in respect of parts and repair services during warranty period, which of the following statements would be incorrect as per the GST Law:

- (a) In case of arrangement with Coco Motors Limited, GST would be payable by CD to the manufacturer.
  - (b) In case of arrangement with Zoho Motors Limited, no GST is payable on such replacement by the manufacturer.
  - (c) In case of arrangement with Polo Motors Limited, tax liability may be adjusted by the manufacturer subject to the condition that CD has reversed the ITC availed against the bike/parts
  - (d) In case of provision of repair services on behalf of all the manufacturers, no GST is payable by CD as such service is being done without charging consideration from the customer during the warranty period.
- 1.4 Which of the following statements is true with respect to the customer's purchase of extended warranty?
- (i) When the customer purchases extended warranty from CD at the time of original supply, it would be treated as a supply of service distinct from the original supply. CD would be liable to discharge GST liability applicable on such supply of services.
  - (ii) When the customer purchases extended warranty from CD at the time of original supply, it would be treated as composite supply, the principal supply being the supply of the bike and GST would be payable accordingly.
  - (iii) When the customer purchases extended warranty from CD at a time after/different from the original supply, the same shall be treated as a composite supply, the principal supply being the supply of the bike and GST would be payable accordingly.
  - (iv) When the customer purchases extended warranty from service providers other than CD, then the supply of extended warranty will be treated as a separate supply from the original supply of bike and will be taxable as supply of services.

**Options:**

- (a) (i) and (iv)
- (b) (ii) and (iv)

- (c) (ii) and (iii)
  - (d) (iii) and (iv)
- 1.5 While placing the order for a bike at CDs showroom, a customer has to present certain documents for verification. At times, the sales person asks for the same documents like driver's license, identity and address proof repeatedly for using it for different forms. As per Kano model which of the following quality or attribute does this repetitive request for the same document represent?
- (a) Performance attribute
  - (b) Threshold attribute
  - (c) Reverse quality
  - (d) Indifferent quality

### Descriptive Question

- 1.6 Based on the CD's operation, Answer the following:
- (a) In light of Ravi Sinha's opinion that a business must be able to know the net profit attributable to the future relationship with a customer, RECOMMEND steps that can be used to determine the Customer Lifetime Value (CLV) of a particular customer.
  - (b) CALCULATE the life time value of a "Good" customer who is 20 years of age.
  - (c) CALCULATE the life time value of an "Excellent" customer who is 25 years of age.
  - (d) ADVISE whether the brand endorsement program is worth ₹ 25 crores.

Note for questions (b) and (c), Ignore the Net Present Value of money and tax implications. Assume the service and maintenance charges will be incurred on the last day of the year. Charges will be prorated if the contract is for less than a year.

- 1.7 The Company is interested in the sensitivity analysis of key financials related to the dealership of electric bikes, ADVISE which among the

three factors except project life is most sensitive factor assuming an adverse change of 10%.

- 1.8 Mr. Ravi approached CA. Abhishek, to seek expert advice and to understand the regulatory requirements and permissible procedures under FEMA laws to ensure these transactions comply with all legal norms. What ADVICE should CA. Abhishek provide?

## Case Study - 2

### RATHVAAN

#### Founding Vision and Team Expansion



When Rahul Mehta, CEO of Rathvaan Pvt. Ltd., returned to his hometown of Agra after completing his mechanical engineering in Delhi, he envisioned a full-service automotive company that could serve urban families, corporate fleets, and commercial clients alike. Early in his career, Mehta led efficiency-driven projects at a leading OEM

supplier, refining assembly workflows and quality controls. Motivated by the challenge of delivering dependable vehicles across India's diverse markets, he founded Rathvaan Pvt. Ltd. in Agra in 2003 with a small team of engineers and a basic workshop. Today, the company employs hundreds of people and is governed by a Board of ten directors. Considering this rapid growth, the Board of Rathvaan Pvt. Ltd. resolved to induct six more directors, including two designated as independent directors pursuant to an internal governance charter adopted by the Board and a shareholders' agreement signed by all existing members.

The company convened an Extraordinary General Meeting on April 15, 2025, with notice dated 6th April 2025, to pass a special resolution to approve these appointments. The notice was published in vernacular and English newspaper and uploaded on the company's website but not dispatched to members and no explanatory statement accompanied the notice. The two independent director appointees were not registered in the databank at the time of the



EGM but had applied for registration by 15th May 2025. DIR-12 filings for all six appointees were made on 30th April 2025, with attachments including the Board resolutions and consents. The Articles of Association limited the number of directors to 12 at the time of appointment. A special resolution to approve the appointments was passed unanimously at the EGM.

A few months earlier, at the AGM held on September 29, 2024, Mr. Ranvir's appointment to fill the casual vacancy was not proposed/approved, as the Board was of the view that it is not required now or even subsequently. Originally, Mr. Rishi had joined the Board as a Non-Executive Director for a three-year term at the AGM on September 30, 2022. However, on 2nd October, 2023, Mr. Rishi suffered a severe heart failure and expired. The Board of Directors of the company on 16th October, 2023 appointed Mr. Ranvir for a term of three years to fill the casual vacancy so created. The CFO of the company is of the opinion that the Board of Directors have contravened the provisions of the Companies Act, 2013 in respect of non-approval of the appointment of Mr. Ranvir and his office tenure.

### Operational Model and Service Portfolio

Leveraging its talented leadership bench and workforce, Rathvaan has streamlined operations and introduced a broader array of services. This foundation has propelled the company over the past two decades to become a leading manufacturer of cars in India's automotive sector and a registered supplier in Agra, known for its end-to-end



vehicle design, production, and delivery services. The Company oversees a comprehensive ten-month operational cycle from the procurement of raw materials to the completion of passenger-vehicle assembly and final delivery while customers settle their dues after a period of 10 months from the date of sale. Rathvaan offers a diverse lineup of vehicles, with a particular focus on fuel-efficient family sedans, compact SUVs, and light commercial vans, complemented by garage-door solutions (details of Garage door installation services provided by Rathvaan are attached as **Annexure I**) for residential and commercial clients. Their offerings meet the needs of individual, fleet, and corporate clients, providing tailored financing and after-sales support. This disciplined production and payment structure is central to the Company's

value proposition, ensuring predictable cash flows and long-term customer trust and aligns with its ambitious expansion plans to venture into new service domains.

### Expanding Services Through Acquisition of Yatrik

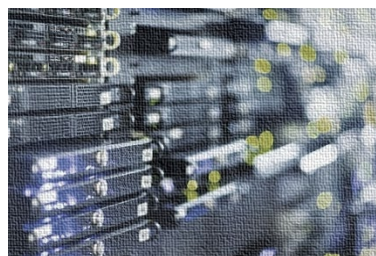


As part of its strategic expansion and service-chain optimization, Rathvaan Pvt. Ltd. has undertaken a targeted acquisition in the travel sector. Rathvaan decided to acquire Yatrik, a tour-operations company specializing in curated travel packages, adventure tours, and end-to-end trip management services across India. This forward integration move is aimed at integrating Yatrik's platform with Rathvaan's

vehicle sales and after-sales services to create bundled mobility and leisure offerings. Through this acquisition, Rathvaan said it hopes to enhance its service portfolio and operational efficiency by leveraging its nationwide dealer network alongside Yatrik's core technological capabilities. Rathvaan initially acquired 8% of the equity share capital of Yatrik On 1st April 2023, for ₹92,000. Rathvaan accounts for its investment in Yatrik at Fair Value through OCI. On 31st March 2024, Rathvaan carried its investment in Yatrik at fair value and reported an unrealised gain of ₹ 8,000 in other comprehensive income, which was presented as a separate component of equity. On 1st April 2024, Rathvaan obtains control of Yatrik by acquiring the remaining 92 percent of Yatrik. After acquiring Yatrik, the founder, Rahul Mehta, turned his attention to Rathvaan's own manufacturing capabilities, prioritizing capacity expansion and equipment upgrades.

### Modernizing Infrastructure and Equipment Upgrades

Rathvaan's aging IT infrastructure and plans to expand its car manufacturing operations led the company to invest ₹ 5 lakh on 1 May 2020 in several new computers of the latest models. All equipment was insured with United Bharat Assurance Ltd. against fire, flood, earthquake, and other risks under a reinstatement clause requiring the insurer to pay the computers' value as of the date of fire etc., in






case of destruction or loss. By 1 April 2024, the written-down value of these assets stood at ₹ 2,12,150. In August 2024, a fire broke out in Rathvaan's facility, destroying all computer systems, which remained unreplaced as of 31 March 2025 because Rathvaan awaited the release of newer models. Rathvaan received the full ₹5 lakh insurance payout on 15 March 2025, but no additional computers were purchased during FY 2024-25.

Building on its drive to replace old equipments and expand capacity, Rathvaan decided to discard an obsolete injection molding machine (used for producing plastic dashboards, bumpers, and interior trim) in June 2024 to improve operational efficiency. This discarded machinery belonged to the block of Plant & Machinery chargeable to depreciation @ 15%, which has 10 different machinery items as at 31 March 2025. For A.Y. 2025-26, Rathvaan claimed total depreciation of ₹ 20 lakhs which includes ₹ 2 lakhs being the depreciation claimed on the machinery item discarded. The A.O. disallowed the claim of depreciation of ₹ 2 lakhs during the course of scrutiny assessment.

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.







#### **Details of Sales Made to Key Customers and Related Outcomes**

 <p><b>High-Performance Engines Sold to Chola Ltd.</b></p>	<p>During the year 2024-25, Rathvaan sold 10 high-performance petrol engines to Chola Ltd., a long-standing client in the logistics and distribution industry, for a total consideration of ₹ 5 lakhs. The payment is receivable in three instalments: ₹ 1,66,666 on 1<sup>st</sup> April 2024, ₹ 1,66,667 on 31<sup>st</sup> March 2025, and ₹ 1,66,667 on 31<sup>st</sup> March 2026.</p> <p>The company is offering a discount of 5 % (i.e. ₹ 25,000) if payment is made in full at the time of</p>
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	<p>sale. The sale agreement reflects an implicit interest rate of 5.36% p.a.</p> <p>The total consideration to be received from such sale is at ₹ 5 Lakhs and hence, the management has recognised the revenue from sale of goods for ₹ 5 lakhs for the year 2024-25.</p>
 <p><b>Delivery Vans Supplied to Trackon Pvt. Ltd.</b></p>	<p>On 20<sup>th</sup> March 2025, Rathvaan issued tax invoice for two light commercial delivery vans valued at ₹ 10 lakh each (excluding GST 28%) to Trackon Pvt. Ltd., a registered courier and logistics provider based in Firozabad. However, no underlying supply of vans was made. Subsequently, ITC was availed based on said invoice by Trackon Pvt Ltd. and utilised for payment of its tax liability in respect of its outward supplies of taxable goods.</p>
 <p><b>SwiftEx Sedan Sold to Mr. Amber</b></p>	<p>On 30 September 2024, Rathvaan supplied a Rathvaan SwiftEx sedan to Mr. Amber. On 1 January 2025, the company was notified that Mr. Amber had initiated legal action against the company in respect of a financial losses allegedly caused by defects in the vehicle. Rathvaan defended the case but considered, based on the progress of the case up to 31st March 2025, that there was a 75% probability they would have to pay damages of ₹ 8 lakhs to the customer. However, the accountant of Rathvaan has not recorded this transaction in its financial statement as the case is not yet finally settled. The financials have been approved by the Board of Directors in its meeting held on 18th May 2025.</p> <p>(The Supreme Court's judgment on this case has been widely reported in the newspapers-see Annexure II.)</p>

### Annexure – I

**Garage Door Installation Services Provided by Rathvaan Pvt. Ltd. during the month of April 2024**

	Part	Install	Replace	Adjust	Lubricate	Total
	Door	3	6	2	1	12
	Motor	4	3	17	10	34
	Track	6	1	7	7	21
	Trimmer	15	7	1	1	24
	T-Lock	6	1	2	1	10
	Miscellaneous	1	3	2	2	8
	<b>Total</b>	<b>35</b>	<b>21</b>	<b>31</b>	<b>22</b>	<b>109</b>

*The team provides installations, replacements, adjustments, and lubrication services across various garage door components.*

## Annexure – II

**The State News****Supreme Court Directs Rathvaan to Pay ₹10 Lakh Compensation for Defective Car**

*June 1, 2025, New Delhi* – In a landmark consumer-protection judgment, the Supreme Court of India has directed Rathvaan Pvt. Ltd., a prominent car manufacturer, to pay ₹ 10 lakh in compensation to a customer who suffered financial losses after purchasing a defective vehicle.

The bench—led by Justices R. Vasudevan and N. Banerjee—held that the defects in the car supplied on 30 September 2024 caused substantial economic harm and that Rathvaan failed to uphold the quality standards promised at the time of sale.

The customer initiated legal proceedings on 1 January 2025, seeking redress for repair costs, loss of use, and other incidental expenses. Despite Rathvaan's defense that the defects were minor, the Court found the company liable for breach of its statutory duty under the Consumer Protection Act.

The case was ultimately settled on 15<sup>th</sup> May 2025 against the company, resulting in the payment of ₹ 10 lakhs as damages to the customer. Accordingly, Rathvaan is required to deposit the compensation amount within eight weeks, failing which it will be liable to pay interest at 9% per annum. The Court also remarked: *"Manufacturers must ensure vehicles are fit for purpose before they reach consumers. A failure to do so invites both legal and financial consequences."*

**Multiple Choice Questions**

- 2.1 Based on facts given, you are required to determine, which of the following options is/are most appropriate with respect to invoice issued to Trackon Pvt Ltd. without underlying supply of vans.
- i. Penalty under section 122(1)(ii) of the CGST Act, 2017 is leviable on Rathvaan since it has issued invoice without underlying supply of goods.
  - ii. Rathvaan is liable to demand and recovery of the tax payable on supply of delivery vans along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.
  - iii. Trackon Pvt Ltd. is eligible to avail ITC since it was in the possession of the tax invoice.
  - iv. Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.
  - v. Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A and section 122(1)(vii) of the CGST Act, 2017, along with applicable interest under provisions of section 50.

**Options**

- (a) (i) and (iii)
  - (b) (ii) and (iv)
  - (c) (i) and (v)
  - (d) (i) and (iv)
- 2.2 How should Rathvaan account for its initial 8% investment in Yatrik upon acquiring the remaining 92% and obtaining control of Yatrik on 1st April 2024?
- (a) Reclassify the ₹ 8,000 gain from OCI to the income statement.

- (b) Retain the ₹ 8,000 gain in OCI as per Ind AS 109 and include the fair value of the 8% investment and the new acquisition in acquisition accounting.
  - (c) Remeasure the 8% investment at cost and transfer the gain to retained earnings.
  - (d) Ignore the ₹ 8,000 gain entirely as it has no impact on the acquisition accounting.
- 2.3 Analyse the tax treatment with reference to destruction of computer systems by fire.
- (Cost inflation index for financial year 2020-21 and 2024-25 are 301 and 363, respectively)
- (a) Short term capital gains: ₹2,87,850
  - (b) Long term capital gains: ₹2,87,850
  - (c) Short term capital loss: ₹1,02,990
  - (d) Long term capital loss: ₹1,02,990
- 2.4 Analyse whether the accounting treatment made by the accountant with respect to legal action taken by the Mr. Amber against Rathvaan is in compliance of the Ind AS.
- (a) Not in compliance, A provision of ₹ 6 lakhs ( $₹ 8 \text{ lakhs} \times 75\%$ ) should have been recognised at the reporting date, with no further adjustment.
  - (b) Not in compliance, An initial provision of ₹ 8 lakhs should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to ₹10 lakhs and recognised as a current liability.
  - (c) In compliance, The matter is a contingent liability until the court ruling, therefore, no provision or adjustment is necessary.
  - (d) Not in compliance, An initial provision of ₹ 6 lakhs ( $₹ 8 \text{ lakhs} \times 75\%$ ) should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to ₹ 10 lakhs and recognised as a current liability.



2.5 Which of the following statements accurately characterize the fraud committed by cashier and auditor's due care while audit and the subsequent actions:

- (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)

**Descriptive Question**

2.6 ANALYSE whether the accounting treatment made by the accountant with respect to sale of goods to Chola Ltd. is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same.

2.7 Required:

- (i) With reference to the garage door installation services provided by Rathvaan Pvt. Ltd. during the month of April 2024, carry out a Pareto Analysis (80/20 rule) of Total Parts.
- (ii) Using the same data carry out the second level Pareto Analysis on the type of services with respect to Motors only.
- (iii) Give your RECOMMENDATIONS on the basis of your calculations in (i) and (ii) above.

(Do calculations to two decimals only)

- 2.8 DISCUSS the validity of action taken by AO in the matter of disallowance of depreciation.
- 2.9 ANALYSE whether the appointments were legally valid in light of the Companies Act, 2013 and relevant rules.
- (a) The board's appointment of six directors
  - (b) The board's appointment of Mr. Ranvir to fill the casual vacancy



## SUGGESTED ANSWERS

**1.1 The correct answer is (a)** (i) – C, (ii) – A, (iii) – D and (iv) – B

**Reason:**

- (i) Offering attractive options to exchange old electric bikes for newer one. – Customer Retention
- (ii) Target youth and young professionals below 35 years – Customer Selection
- (iii) Digital marketing to reach out to customers across India – Customer Acquisition
- (iv) Cross selling annual maintenance contracts at attractive rates once the warranty period is over. – Customer Extension

**1.2 The correct answer is (c)** (iii) and (iv).

**Reason:**

A new section 194T has been inserted by the Finance (No. 2) Act, 2024 which requires partnerships to deduct 10% tax at source on any sum paid to partners such as salary, remuneration, commission, bonus or interest if such sum exceeds ₹ 20,000 during the financial year. However, section 194T is applicable with effect from 1<sup>st</sup> April 2025.

The extra additional salary payment relating to previous years prior to 1<sup>st</sup> April, 2024 is not deductible even though it has been approved in the partnership deed amended as on 1<sup>st</sup> April 2024. Section 40(b)(3)

disallows any remuneration paid to working partner or interest to a partner authorized by deed but relates to an earlier period.

The working for maximum deduction of salary paid to working partners is as below:

Computation of book profit of the firm under section 40(b)

Particulars	₹
Net Profit (before deduction of depreciation, salary and interest)	11,00,00,000
<b>Less:</b>	
Depreciation under section 32	8,00,00,000
Interest @12% p.a. (being maximum allowable as per section 40(b))	1,20,00,000
<b>Book Profit</b>	<b>1,80,00,000</b>

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be:

Sr. No.	Particulars	₹
1	On first ₹ 6,00,000 of book profit (₹ 6,00,000 x 90%)	5,40,000
2	On the balance ₹ 1.74 crores of book profit (₹ 1.74 crores x 60%)	1,04,40,000
	<b>Maximum allowable salary as per section 40(b)(v)</b>	<b>1,09,80,000</b>

Actual salary paid to Ravi and Raju relating to the year 2024 - 25 is ₹ 1.2 crores (₹ 5 lakhs x 2 x 12) but the maximum allowable salary as per section 40(b)(v) is ₹ 1.098 crores. Therefore, the excess payment of ₹ 10.2 lakhs will not be allowed as a deduction while computing the taxable income of the partnership for A.Y. 2025-26.

- 1.3 The correct answer is (d)** In case of provision of repair services on behalf of all the manufacturers, no GST is payable by CD as such service

is being done without charging consideration from the customer during the warranty period.

**Reason:**

The correct answer is (d), CD is required to pay GST on the provision of repair services to the customer under warranty and the respective manufacturer is charged for such repair services by way of issue of invoice or debit note by CD. In such a scenario, there is a supply of service by CD and the respective manufacturer is the recipient of such supply of repair service in accordance with the provisions of section 2(93) (a) of the CGST Act, 2017. Hence, GST would be payable on such provision of service by CD to the manufacturer.

**1.4 The correct answer is (b) (ii) and (iv)**

**Reason:**

When the customer purchases extended warranty from CD at the time of original supply, it would be treated as composite supply, the principal supply being the supply of the bike and GST would be payable accordingly.

When the customer purchases extended warranty from service providers other than CD, then the supply of extended warranty will be treated as a separate supply from the original supply of bike and will be taxable as supply of services.

When the customer purchases extended warranty from CD at a time after/different from the original supply, the same shall be treated as a services distinct supply from the original supply of bike and will be taxable as supply of services.

**1.5 The correct answer is (c) Reverse quality**

**Reason:**

Asking for the same document repeatedly for different forms leads to customer dissatisfaction. If such repeated requests are not made, it does not lead to additional satisfaction. Therefore, this is a reverse quality, which when present causes dissatisfaction. CD can streamline its data collection process at the sales point in the showroom to overcome this issue.

**1.6 (a) Steps to ascertain the customer lifetime value of a particular customer**

CD needs to ascertain the profits generated from each customer. Activity Based Costing (ABC) model helps in associating direct costs and revenues to a particular customer over a period of time to ascertain the profit margin from that particular customer. To ascertain lifetime value, judgment with regard to duration of customer relationships have to be made. These require detailed analysis of the strengths of relationships, the likelihood, frequency and amount of repeated or additional purchases, competitive products, customer loyalty etc. Thus, profit margins are then discounted at the firm's cost of capital or any rate that may be determined by the organization to arrive at the customer lifetime value.

**(b) Lifetime value of "Good customer" aged 20 years**

A customer aged 20 years will buy 5 bikes from CD. A new bike is bought every five years. Therefore, a new bike will be bought from the ages 20 years – 25 years, 25 years to 30 years, 30 years to 35 years, 35 years to 40 years and once more at 40 years driven upto an average age of 40 year 3 months.

Profit margin from the sale of 1 bike = 25% of ₹6,00,000 = ₹ 1,50,000 per bike.

Profit margin from service / maintenance charges of 1 bike = 50% of ₹ 1,00,000 = ₹ 50,000 per bike.

Total profit margin from sale of 1 bike = ₹1,50,000 + ₹50,000 = ₹ 2,00,000 per bike.

Total profit from sale of 5 bikes = ₹ 2,00,000 × 5 = ₹ 10,00,000.

Therefore, the lifetime value of "good customer" aged 20 years is ₹ 10,00,000.

**(c) Lifetime value of "Excellent customer" aged 25 years.**

An excellent buyer on an average would buy 7 bikes from CD. Service and maintenance charges are incurred every year. The customer is expected to ride bikes until the age of 40 years and 3

months. Accordingly, CD would provide service and maintenance for 15 whole years (40 years – 25 years) and in the 16<sup>th</sup> year the service would be given for 3 months. Therefore, service and maintenance is provided for a total of 15.25 years.

Profit margin from sale a bike = 30% of ₹9,00,000 = ₹ 2,70,000 per bike.

Profit margin from service / maintenance charges of 1 bike = 60% of ₹ 1,20,000 = ₹72,000 per year.

Profit margin from sale of 7 bikes = ₹ 2,70,000 per bike × 7 bikes = ₹ 18,90,000.

Profit margin from service / maintenance for 15.25 years = ₹ 72,000 × 15.25 years = ₹ 10,98,000.

Total profit earned (customer lifetime value) from “excellent customer” aged 25 years is ₹ 29,88,000.

**(d) Brand endorsement decision involving outlay of ₹ 25 crore.**

**Lifetime value of Good customer, who is aged 30 years:**

A “good customer” aged 30 years would buy 3 bikes from CD. (30 years to 35 years, 35 years to 40 years and once more at 40 years driven upto an average of 40 years 3 months of age).

As mentioned in (b) above, the profit margin from sale of 1 bike = ₹2,00,000 per bike.

Therefore, the profit margin from sale of 3 bikes = ₹ 6,00,000, this is the customer lifetime value of “good customer” aged 30 years.

**Lifetime value of Excellent customer, who is aged 30 years:**

An “excellent customer” aged 30 years would buy 7 bikes in all from CD. The service and maintenance for these bikes will be required for 10.25 years (40.25 years – 30 years).

As mentioned in (c) above, the profit from sale of 7 bikes = ₹ 18,90,000.

Profit from providing service and maintenance for 10.25 years = ₹ 72,000 × 10.25 = ₹ 7,38,000.

Therefore, customer lifetime value of "excellent customer" aged 30 years = ₹ 18,90,000 + ₹ 7,38,000 = ₹ 26,28,000.

**Net Incremental benefit from converting good customer into excellent customer, who is aged 30 years:**

The differential / incremental profit on converting 1 customer aged 30 years from "good category" to "excellent category" would be ₹ 26,28,000 - ₹ 6,00,000 = ₹ 20,28,000 per customer.

Therefore, the incremental profit on converting 500 customers aged 30 years from "good category" to "excellent category" = ₹ 20,28,000 × 500 customers = ₹ 101,40,00,000 (101.4 crores).

The cost of hiring Formula 1 racing icons for brand endorsement = ₹ 25,00,00,000.

Therefore, the net incremental profit earned as a result of the brand endorsement = ₹ 76,40,00,000.

Therefore, the management can consider the brand endorsement program as it yields an incremental profit of ₹ 76.40 crores.

**1.7 Calculation of NPV:**

₹ (in crores)

<b>Calculation of Net Present Value (NPV) for the electric bike dealership</b>	
Present Value of annual cash inflows (₹ 5 crores × 3.169 the PVIFA @ 10% cost of capital for 4 years)	15.845
Initial project cost	(13)
<b>Net Present Value (NPV)</b>	<b>2.845</b>
<b>If the initial project cost is varied adversely by 10%</b>	
Present Value of annual cash inflows	15.845
Revised estimate of initial project cost (13 crores × 110%)	(14.3)
<b>Revised Net Present Value (NPV)</b>	<b>1.545</b>
Change in NPV	1.3
Percentage change in NPV (₹ 2.845 crores - ₹ 1.3 crores)/ 2.845 crores	54.31%

(Therefore, NPV changes adversely by 54.31% when initial project cost is varied adversely by 10%.)	
<b>If annual cash inflow is varied adversely by 10%</b>	
Revised annual cash inflow (₹ 5 crores × 90%)	4.5
Revised PV of annual cash inflows (₹ 4.5 crores × 3.169)	14.2605
Initial project cost	(13)
<b>Revised Net Present Value (NPV)</b>	<b>1.2605</b>
Percentage change in NPV (₹ 2.845 crores – ₹ 1.2605 crores)/2.845	55.69%
(Therefore, NPV changes adversely by 55.69% when annual cash inflow is varied adversely by 10%.)	
<b>If cost of capital is varied adversely by 10%</b>	
Revised cost of capital (10% × 110%)	11.00%
Revised PV of annual cash inflows (₹ 5 crores × 3.103)	14.2605
Initial project cost	(13)
<b>Revised NPV of project with cost of capital 11% for 4 years</b>	<b>2.515</b>
Percentage change in NPV (₹ 2.845 crores – ₹ 2.515 crores)/2.845	11.60%
(Therefore, NPV changes adversely by 11.60%, when Cost of capital is varied adversely by 10%.)	

### ADVISE

As per the information given in the problem, the net present value of the dealership venture would be ₹ 2.845 crores. If initial project cost is varied adversely by 10%, the cost increases from ₹ 13 crore to ₹ 14.30 crores. Accordingly, the NPV for the project would decrease from ₹ 2.845 crores to ₹ 1.545 crores. This is a decline by 54.31%. If the annual cash inflow is varied adversely by 10%, the cash inflow would reduce from ₹ 5 crores per annum to ₹ 4.5 crores per annum. Accordingly, the NPV for the project would decrease from ₹ 2.845 crores to ₹ 1.2605 crores. This is a decline by 55.69%. If the cost of capital is varied adversely by 10%, the cost of capital would increase from 10% to 11%. Accordingly, the NPV



for the project would decrease from ₹ 2.845 crores to ₹ 2.515 crores. This is a decline by 11.60%.

Therefore, it can be concluded from above the project is most sensitive to adverse impact on the annual cash inflow.

- 1.8** CA Abhishek would advise Mr. Ravi as per the current regulatory framework of FEMA and the guidelines issued by the Reserve Bank of India. Under provisions of Section 5 of the Foreign Exchange Management Act, 1999, certain Rules have been made for drawal of Foreign Exchange for Current Account transactions.

As per these Rules, Foreign Exchange for some of the Current Account transactions is prohibited. As regards some other Current Account transactions, Foreign Exchange can be drawn with prior permission of the Central Government while in case of some Current Account transactions, prior permission of Reserve Bank of India is required.

In respect of remittance out of lottery winnings, such remittance is prohibited and the same is included in First Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000. Hence, Mr. Ravi cannot withdraw Foreign Exchange for this purpose.

Further, Foreign Exchange for meeting expenses of cultural tour can be withdrawn by any person after obtaining permission from Government of India, Ministry of Human Resources Development, (Department of Education and Culture) as prescribed in Second Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000.

Hence, in respect of cultural troupe, Mr. Ravi can withdraw the Foreign Exchange only after obtaining such permission.

In both above cases, where remittance of Foreign Exchange is allowed, either by general or specific permission, the remitter has to obtain the Foreign Exchange from an Authorised Person as defined in Section 2(c) read with section 10 of the Foreign Exchange Management Act, 1999.

- 2.1 The correct answer is (d) (i) and (iv)**

**Reason:**

Circular No. 171/03/2022 GST dated 06.07.2022 clarifies the applicability of demand and penalty provisions under the CGST Act, 2017, in respect

of the transactions involving fake invoices. Where a registered person "A" has issued tax invoice to another registered person "B" without any underlying supply of goods or services or both and 'B' avails ITC on the basis of the said tax invoice and utilises this ITC for payment of his tax liability in respect of his said outward supplies, the circular clarifies that since there has only been an issuance of tax invoice by the registered person 'A' to registered person 'B' without the underlying supply of goods or services or both, therefore, such an activity does not satisfy the criteria of "supply", as defined under section 7 of the CGST Act, 2017.

As there is no supply by 'A' to 'B' in respect of such tax invoice in terms of the provisions of section 7, no tax liability arises against 'A' for the said transaction, and accordingly, no demand and recovery or penal action is required to be made against 'A' under the provisions of section 74A in respect of the same.

The registered person 'A' shall, however, be liable for penal action under section 122(1)(ii) of the CGST Act, 2017, for issuing tax invoices without actual supply of goods or services or both.

Further, since the registered person 'B' has availed and utilized fraudulent ITC on the basis of the said tax invoice, without receiving the goods or services or both, in contravention of the provisions of section 16(2)(b) of the CGST Act, 2017, he shall be liable for the demand and recovery of the said ITC, along with penal action, under the provisions of section 74A of the CGST Act, 2017, along with applicable interest under provisions of section 50.

Moreover, as per provisions of section 75(13) of the CGST Act, 2017, if penal action for fraudulent availment or utilization of ITC is taken against 'B' under section 74A, no penalty for the same act, i.e. for the said fraudulent availment or utilization of ITC, can be imposed on 'B' under any other provisions of the CGST Act, 2017, including under section 122 of the CGST Act, 2017.

Thus, in the given case, no demand can be initiated against Rathvaan, he is liable to penalty under section 122(1)(ii) of the CGST Act, 2017. Further, Trackon Pvt Ltd. is liable to demand and recovery of ITC fraudulently availed and utilised and along with penal action under section 74A of the CGST Act, 2017, along with applicable interest under

provisions of section 50. However, as per section 75(13) of the CGST Act, 2017, no further penalty for same act i.e. for the said fraudulent availment and utilization of ITC, can be imposed on Trackon Pvt Ltd. under any other provisions of the CGST Act, 2017 including penalty under section 122(1)(vii).

**2.2 The correct answer is option (d) (i), (iii) and (v)**

**Reason:**

At the subsequent acquisition Rathvaan Pvt Ltd. recognises the gain of ₹ 8,000 in OCI as the gain or loss is not allowed to be recycled to income statement as per the requirement of Ind AS 109. Since, Rathvaan Pvt Ltd.'s initial investment in Yatrik is at fair value and therefore does not require remeasurement as a result of the business combination. The fair value of the 8 percent investment (1,00,000) plus the fair value of the consideration for the 92 percent newly acquired interest is included in the acquisition accounting.

**2.3 The correct answer is (a) Short term capital gains: ₹ 2,87,850**

**Reason:**

As per section 45(1A), where any person receives any money or other assets under an insurance from an insurer on account of damage to or destruction of capital asset as a result of, inter alia, accidental fire then, any profits and gains arising from the receipt of such money or other assets, shall be chargeable to income tax under the head "Capital Gains" and shall be deemed to be the income of such person of the previous year in which such money or asset was received.

For the purpose of section 48, the money received or the market value of the asset shall be deemed to be the full value of the consideration accruing as a result of the transfer of such capital asset. Since the asset was destroyed and the money from the insurance company was received in the previous year, there will be a liability to compute capital gains in respect of the insurance moneys received by the assessee.

Under section 45(1A) any profits and gains arising from receipt of insurance moneys is chargeable under the head "Capital gains". For the purpose of section 48, the moneys received shall be deemed to be the full value of the consideration accruing or arising. Under section 50 the

capital gains in respect of depreciable assets had to be computed in the following manner.

The computation of capital gain and tax implication is given below:

Full value of the consideration	₹ 5,00,000
Less: Written down value as on April 1st, 2024	₹ 2,12,150
Short term capital gains	₹ 2,87,850

- 2.4 The correct answer is (b)** Not in compliance, an initial provision of `8 lakhs should have been recognised at 31 March 2025, and, as an adjusting event, the provision should then be increased to `10 lakhs and recognised as a current liability.

**Reason:**

The above treatment needs to be examined in the light of the provisions given in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' and Ind AS 10 'Events After the Reporting Period'.

**Paragraph 10 of Ind AS 37** 'Provisions, Contingent Liabilities and Contingent Assets' defines:

*"Provision is a liability of uncertain timing or amount."*

Liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Further, **paragraph 14 of Ind AS 37**, states:

"A provision shall be recognised when: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation."

Further, **paragraph 36 of Ind AS 37**, states:

"The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period."

Further, **paragraph 3** of **Ind AS 10** 'Events after the Reporting Period' defines:

"Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are approved by the Board of Directors in case of a company, and, by the corresponding approving authority in case of any other entity for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)."

Further, **paragraph 8** of **Ind AS 10** states that:

"An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period."

The Accountant of Rathvaan Pvt Ltd. has not recognised the provision and accordingly not adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting period is not correct and nor in accordance with the provision of Ind AS 37 and Ind AS 10.

As per given facts, the potential payment of damages to the customer is an obligation arising out of a past event which can be reliably estimated. Therefore, following the provision of Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' – a provision is required. The provision should be for the best estimate of the expenditure required to settle the obligation at 31st March, 2025 which comes to ₹ 8 lakhs as probability to settle is ~75%.

Further, following the principles of Ind AS 10 'Events after the Reporting Period' evidence of the settlement amount is an adjusting event. Therefore, the amount of provision created shall be increased to ₹ 10 lakhs and accordingly be recognised as a current liability. Since, the decision of the court is before approval of Financial Statements by the Board.

**2.5 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.

**2.6** As per Ind AS 115 "Revenue from Contracts with Customers" - The contract includes a significant financing component. This is evident from the difference between the amount of promised consideration of ₹ 5,00,000 and the cash selling price of ₹ 4,75,000 at the date that the goods are transferred to the customer.

The contract includes an implicit interest rate of 5.36 per cent (i.e. the interest rate that over 2 years discounts the promised consideration of ₹ 5,00,000 to the cash selling price of ₹ 4,75,000). This has been shown in the calculation below.

**The fair value of consideration (cash price equivalent) of the sale of goods is calculated as follows:**

Year	Consideration (Instalment)	Present value factor	Present value of consideration
Time of Sale	1,66,666	-	1,66,666
End of 1st year	1,66,667	0.949	1,58,167
End of 2nd year	1,66,667	0.901	1,50,167
<b>Total</b>	<b>5,00,000</b>		<b>4,75,000</b>

In order to determine the transaction price, Rathvaan must adjust the promised amount of consideration (as shown above) for the effects of the time value of money since the contract includes a significant financing component. The revenue from sale of goods shall be recognised at the fair value of the consideration received or receivable. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest where the receipt is deferred beyond normal credit terms. The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

At the time of initial recognition, Rathvaan will recognize the revenue from the sale of goods and finance income by recording a total sales value of ₹4,75,000, of which ₹1,66,666 is received in cash and ₹3,08,334 is recognized as a trade receivable. Accordingly, the accounting entry will debit Cash by ₹1,66,666 and Trade Receivable by ₹3,08,334, and credit Sales by ₹4,75,000.

In second year beginning, Rathvaan will recognize the interest income and the receipt of the second installment by recording a cash inflow of ₹1,66,667. Out of this amount, ₹16,527 is recognized as interest income earned, and the remaining ₹1,50,140 is adjusted against the outstanding trade receivable. Accordingly, the accounting entry will debit Cash by ₹1,66,667, credit Interest Income by ₹16,527, and credit Trade Receivable by ₹1,50,140.

At the time of final settlement, Rathvaan will recognize the interest income and the payment of the final installment by recording a cash inflow of ₹1,66,667. Of this amount, ₹8,473 is recognized as interest income, and the remaining ₹1,58,194 is adjusted against the outstanding trade receivable. Accordingly, the accounting entry will debit Cash by ₹1,66,667, credit Interest Income by ₹8,473, and credit Trade Receivable by ₹1,58,194.

**Statement of Profit and Loss (extracts) for the year ended 31<sup>st</sup> March, 2025 and 31<sup>st</sup> March, 2026**

Income	As at 31 <sup>st</sup> March, 2025	As at 31 <sup>st</sup> March, 2026
Revenue From Operations (Sale of Goods)	4,75,000	-
Other Income (Finance Income)	16,527	8,473

**Balance Sheet (extracts) as at 31<sup>st</sup> March, 2025 and 31<sup>st</sup> March, 2026**

Assets	As at 31 <sup>st</sup> March, 2025	As at 31 <sup>st</sup> March, 2026
<b>Financial Assets:</b>		
Trade Receivables	1,58,194	XXX

**2.7 (i) Statement Showing "Pareto Analysis of Total Parts"**

Parts	No. of Items	% of Total Items	Cumulative Total
Motor	34	31.19%	31.19%
Trimmer	24	22.02%	53.21%
Track	21	19.27%	72.48%
Door	12	11.01%	83.49%
T-Lock	10	9.17%	92.66%
Miscellaneous	8	7.34%	100.00%



(ii) **Statement Showing "Pareto Analysis of Type of Services (Motor)"**

Type of Services	No. of Items	% of Total Items	Cumulative Total
Adjust	17	50.00%	50.00%
Lubricate	10	29.41%	79.41%
Install	4	11.76%	91.17%
Replace	3	8.83%	100.00%

- (iii) Pareto Analysis is a rule that recommends focus on most important aspects of the decision making in order to simplify the process of decision making. The very purpose of this analysis is to direct attention and efforts of management to the area where best pay-off can be achieved by taking appropriate actions.

Pareto Analysis is based on the 80/20 rule which implies that 20% of the products account for 80% of the revenue. But this is not the fixed percentage rule. In a general business sense, it means that a few of the products, goods or customers may make up most of the value for the firm.

The present case stands in a difference to the 80/20 rule. Because the company installs doors, they sometimes have multiple service calls to install each door piece by piece. They may have to install, replace, adjust, or lubricate some part to get the door working properly. They work with five main parts: door, motor, track, trimmer and t-lock. The service calls with reference to motors are heavy and accounted for as much as 31.19% of the number of calls attended. Motor together with trimmer accounted for 53.21%. So, these two parts are to be considered as key parts and Rathvaan must be ever ready to cater to all provisional requirements for attending these classes without any inordinate delay. Any delay in service these calls is likely to damage its service rendering reputation within a very short span of time. Further, the second level Pareto Analysis on motors has revealed a particular reference to the service problems related to motors. Adjustments and Lubrication issues cover up 79.41% of the total service problems

exclusively connected to Motors. So, Rathvaan Pvt Ltd. must direct its best efforts and develop specific expertise to solve these problems in the best interest of the customer.

- 2.8** The issue under consideration is whether disallowance of depreciation made by the Assessing Officer with regard to the discarded asset, in arriving at the written down value of the block of assets, is justified.

One of the conditions for claim of depreciation under section 32 is that the eligible asset must have been put to use for the purpose of business or profession.

The other aspect to be considered is whether merely discarding an obsolete machinery, which is physically available, will attract the expression "moneys payable" appearing in section 43(6), so as to deduct its value from the written down value of the block.

**The facts in the present case are similar to facts in the case of CIT v. Yamaha Motor India Pvt. Ltd. (2010) 328 ITR 297**, wherein the Delhi High Court observed that the expression "used for the purposes of the business" in section 32, when applied to discarded machinery, means that it must have been used in the business not only in the relevant financial year/previous year, but also in earlier financial years.

The discarded machinery may not be actually used in the relevant previous year, but depreciation can be claimed so long as it was used for the purposes of business in earlier years, provided the block continues to exist in the relevant previous year. Therefore, the condition for claiming depreciation on the discarded machine is satisfied if it was used in earlier previous years for the business.

For the purposes of section 43(6), "moneys payable" means the sale price, or insurance, salvage, or compensation money payable in respect of the asset. In this case, the machinery has not been sold as machinery or scrap or otherwise disposed of, and it continues to exist. Hence, there is no "moneys payable" in this case, and only "moneys payable" (if any) would be deductible when computing the written-down value of the block to which it belongs.

Applying this rationale, the Assessing Officer's action in disallowing ₹ 2 lakhs, being the depreciation claim attributable to the discarded machinery, on the ground that the asset was not put to use in the relevant previous year is invalid, since the machinery had been put to use in earlier previous years.

- 2.9 (a)** Under Section 149(1) of the Companies Act, 2013 every company shall have a Board of Directors consisting of individuals as directors and shall have a minimum number of 3 directors in the case of a public company, 2 directors in the case of a private company, and one director in the case of a One Person Company. The maximum number of directors shall be 15. The First Proviso to Section 149(1) states that a company may appoint more than 15 directors after passing a special resolution.

From the provisions of section 149(1) as above, though the minimum number of directors may vary depending on whether the company is a public, private or a one person company, the maximum number of directors is same for all types of companies i.e. 15 directors subject to Special resolution and Article.

Further, the company shall inform its members regarding the candidature of a person for the office of director in accordance with the manner prescribed in Rule 13 of the Companies (Appointment and Qualifications of Directors) Rules, 2014. The same is stated below:

At least 7 days before the general meeting, the company shall inform its members of such candidature—

1. By serving individual notices through electronic mode to such members who have provided their e-mail addresses for communication purposes and in writing to all other members; and
2. By placing notice of such candidature on its website, if any.

**When there is no need to serve notices individually:**

It shall not be necessary for the company to serve individual notices if it advertises such candidature, not less than 7 days before the meeting:

- (a) At least once in a vernacular newspaper in the principal vernacular language of the district in which the registered office of the company is situated, and
- (b) At least once in English in an English-language newspaper circulating in that district.

In case an independent director is appointed in the general meeting, an explanatory statement for such appointment annexed to the notice for the general meeting, shall include a statement that in the opinion of the Board, he fulfills the conditions specified in this Act for such an appointment [Proviso to Section 152(5)].

**Section 149(4)** of the Companies Act, 2013 requires certain classes of companies (notably listed public companies and prescribed unlisted public companies) to appoint independent directors. Private companies are generally *not required* to appoint independent directors under the Act.

**However, if a private company voluntarily chooses to appoint any director as an “independent director”, then all statutory provisions applicable to independent directors, including eligibility under Section 149(6) and the requirements of Section 150 and Rule 6 of the Companies (Appointment and Qualification of Directors) Rules, 2014 must be complied with.**

**Section 150(1)** mandates that any individual proposed to be appointed as an independent director must have their name included in the data bank maintained by a notified body or institute (currently the Indian Institute of Corporate Affairs), and must meet the eligibility criteria set out in Section 149(6).

**Rule 6(1) of the Companies (Appointment and Qualification of Directors) Rules, 2014** (as amended) provides that every individual being appointed as an independent director in any company must apply online to the data bank maintained by the institute, and such appointment is only valid if the individual is so registered at the time of appointment. The appointment of an independent director whether in a public or private company must be approved by the

company in a general meeting as provided in **Section 152(2)**, and the explanatory statement annexed to the notice for such meeting must specify the justification for choosing the appointee for appointment as an independent director, as per **Section 150(2)**.

Section 170(2), read with Rule 18 of the Companies (Appointment and Qualifications of Directors) Rules, 2014, requires a company to file a return in Form DIR-12 in respect of its directors and key managerial personnel after paying the prescribed fee as under:

1. Within 30 days from the appointment; and
2. Within 30 days of any change taking place.

### **Analysis and conclusion**

In the given case, Rathvaan Pvt. Ltd. proposed to increase its board from 10 to 16 directors. The company will be required to Alter its Articles of Association as per the provisions of Section 14 of the Act by passing a special resolution, so as to increase the number of directors in the Articles from 12 to 16. Although the special resolution to approve the appointments was passed unanimously at the EGM, but no resolution was passed to amend the Articles. Accordingly, those appointments are invalid.

Also, the notice for EGM to be held on April 15, 2025, with notice dated 6<sup>th</sup> April 2025, was published in vernacular and English newspaper and uploaded on the company's website but not dispatched to members. Since the notice was duly published in vernacular and English newspaper, there is no need to serve notices individually to all members and hence the company has not violated any law in this regard.

However, for the two independent director appointments, the notice lacked the mandatory explanatory statement as required by the proviso to Section 152(5) and Section 150(2) of the Companies Act, 2013. Although private companies are not required by law to appoint independent directors, if they do so voluntarily, **all procedural requirements, including the inclusion of an explanatory statement justifying the appointment, must be complied with.** In addition, under Section 150(1) and Rule 6 of the

Companies (Appointment and Qualification of Directors) Rules, 2014, any individual being appointed as an independent director must have their name included in the data bank at the time of appointment. **Omission of the explanatory statement and failure to comply with the data bank registration requirements both render the independent director appointments invalid and non-compliant with the Act.**

Finally, the DIR-12 filings on April 30, 2025 fall within the 30-day filing window under Section 170(2) and are therefore compliant.

Therefore, on the basis of above the appointment of directors is not valid.

- (b) According to section 161(4) of the Companies Act, 2013, 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.

Provided that 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.

Casual Vacancy is not the vacancy created due to the retirement of a director. It is created because of certain other factors that are not linked with retirement-like occurrence of death or attraction of disqualification or tendering of resignation or removal, etc. A vacancy which was created due to the fact that the elected director declined to assume the office after his appointment at general meeting cannot be said to result in a casual vacancy. In such a case, when there was no assumption of office by the director, how can he vacate it? Thus, there arises no casual vacancy.

A director appointed to fill a casual vacancy is not a 'casual director'. He enjoys all the powers as well as is required to bear the responsibilities of the director in whose place he is appointed

except that where the earlier director was an 'interested director', his 'interest' cannot be attached to the new director filling the casual vacancy.

**Analysis and conclusion**

Further, in this case, the term of the office of director because of which the casual vacancy is created does not get expired in the normal course. In the given question, the casual vacancy caused due to death of Mr. Rishi (who was appointed by the company in AGM held on 30.9.2022, for a period of 3 years) is filled by the Board of Directors by appointing Mr. Ranvir for a period of three years. However, the appointment of Mr. Ranvir for a period of three years is in contravention of above stated provisions as he can hold office only up to the date up to which Mr. Rishi would have held office if it had not been vacated.

Further, as per the provisions of the Act, the appointment of Mr. Ranvir ought to be approved by members in the immediate next general meeting. However, the appointment of Mr. Ranvir was not even proposed or approved in the immediate next general meeting held. Hence, the appointment of Mr. Ranvir is in contravention of the provisions of the Companies Act, 2013. Therefore, the opinion of CFO is correct.

**Applicability of Standards / Guidance Notes / Legislative  
Amendments etc. for September, 2025 Examination**  
**Final Course**

**Paper 4: Direct Tax Laws & International Taxation**

**Applicability of Finance Act, Assessment Year etc. for September, 2025 Examination**

The provisions of direct tax laws, as amended by **the Finance (No. 2) Act, 2024** including significant notifications, circulars issued and legislative amendments made up to **28.2.2025**, are applicable for September, 2025 examination. The relevant assessment year is **A.Y.2025-26**.

The November 2024 edition of the Study Material for Final Paper 4 based on the provisions of direct tax laws as amended by the Finance (No. 2) Act, 2024, is relevant for September 2025 Examination. The said Study Material comprises of Modules 1 to 4. The Study Material has to be read along with the **Statutory Update for September 2025 examination** covering notifications and circulars issued upto 28.02.2025 but not covered in the study material and the **Judicial Update for September 2025 examination**.

**Note** - As regards certain topics on International Taxation, namely, Overview of Model Tax Conventions, Application & Interpretation of Tax Treaties, Fundamentals of Base Erosion and Profit Shifting and Latest Developments in International Taxation, the specific content as covered in the Study Material would be relevant for September, 2025 Examination.

**Paper-5: Indirect Tax Laws**

The following are applicable for September 2025 examination:

- (i) The provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 28.02.2025.
- (ii) The provisions of the Customs Act, 1962 and the Customs Tariff Act, 1975, as amended by the Finance (No. 2) Act, 2024 including significant



notifications and circulars issued and other legislative amendments made, which have become effective up to 28.02.2025.

**Note** - The amendments made by the Annual Union Finance Acts in the Indirect Tax Laws are made effective from a date notified subsequently. Thus, only those amendments made by the relevant Finance Acts which have become effective till 28.02.2025 are applicable for September 2025 examination.

Accordingly, all the amendments made by the Finance (No. 2) Act, 2024 are applicable for September 2025 examination since they have become effective till 28.02.2025 and amendments in sections 2 and 20 of the CGST Act, 2017 made by the Finance Act, 2024 are NOT applicable for the said examination since they have not become effective till 28.02.2025.

Further, it may be noted that amendments made by the Finance Act, 2023 in sections 9, 9A and 9C of the Customs Tariff Act, 1975 and in section 65 of the Customs Act, 1962 and insertion of new section 65A in the Customs Act, 1962 have not become effective till 28.02.2025 and thus, are not applicable for September 2025 examination. Also, the amendments made by the Finance (No. 2) Act, 2019 in sections 2(4), 95, 102, 103, 104, 105 and 106 of the CGST Act, 2017 and the insertion of new sections 101A, 101B & 101C in the CGST Act, 2017, have not become effective till 28.02.2025 and thus, are not applicable for September 2025 examination.

The Study Guidelines given below specify the exclusions from the syllabus for September 2025 examination.

<b>List of topic-wise exclusions from the syllabus</b>		
<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
<b>S. No. in the syllabus</b>	<b>Topics of the syllabus</b>	<b>Exclusions (Provisions which are excluded from the corresponding topic of the syllabus)</b>
<b>Part-I: Goods and Services Tax</b>		
(i)	Case studies based on following: Levy and collection of CGST and IGST – Application of	(i) Rate of tax prescribed for supply of <b>goods</b> * (ii) Rate of tax prescribed for supply of <b>services</b> *

	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	(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.

**It is important to note that the entire content included in the November 2024 edition of Study Material (*except where it is expressly mentioned that the content is not relevant for the examination*) and the Statutory Update for September 2025 examination shall ALONE be relevant for the said examination. The amendments in the GST law as well as the Customs & FTP, made after the issuance of the Study Material - to the extent covered in the Statutory Update for September 2025 examination shall only be relevant for the said examination.**