

VGFNLM
INDIRECT TAX
TEST PAPER - 2 MAY 19 EXAM - HINT-ANSWERS

Division A – Multiple Choice Questions

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
d	b	a	a	b	c	b	d	c	b	a	d	a	b	a	B	d	c	a/d	c

Division B – Descriptive Questions

Answer 1(a) (6 Marks)

Computation of GST payable on outward supply for February 2019-

Particular	CGST Rs.	SGST Rs.	IGST Rs.
Supply to S Ltd. (inter-state supply)	-	-	50,000
Supply to T Ltd. (inter-state supply)	20,000	20,000	-
Supply to U Ltd. and V Ltd. (exempt from GST)	-	-	-
Total	20,000	20,000	50,000

Computation of input tax credit-

Particular	CGST Rs.	SGST Rs.	IGST Rs.
Opening balance on February 1, 2019	3,685	10,343	51,000
Add: Inward supply during February 2019-			
– Supply from P Ltd., Ahmedabad (intra-State supply)	500	500	-
– Supply from Q Ltd., Coimbatore (inter-State supply; input credit not available as input is used for making exempt supply)	-	-	-
– Supply from R Ltd., Nagpur (inter-State supply)	-	-	14,400
– Consultancy fee paid to a vastu consultant (intra-State supply, used partly for Unit A and partly for Unit B, input credit is available to the extent of 80% as calculated in Note 1)	2,880	2,880	-
Total	7,065	13,723	65,400
Less: Reversal of input tax credit on account of use of generator for Unit B (as calculated in Note 2)	105	105	-
Input tax credit available on February 28, 2019	6,960	13,618	65,400

Computation of GST payable for February 2019-

Particular	CGST Rs.	SGST Rs.	IGST Rs.
GST on outward supply (as computed earlier)	20,000	20,000	50,000
Less: IGST on inward supply (balance IGST : Rs. 65,400 – Rs. 50,000 = Rs. 15,400)	-	-	50,000
Less: CGST on inward supply	6,960	-	-

Less: SGST on inward supply	-	13,618	-
Balance	13,040	6,382	Nil
Less: IGST on inward supply (*balance of Rs. 15,400 – Rs. 13,040)	13,040	2,360*	-
Balance payable by electronic cash ledger	Nil	4,022	Nil

Notes-

- X Ltd. owns two units. Outward supply from Unit A is subject to GST. However, supply from Unit B is exempt from GST. Turnover of February 2019 of Unit A is Rs. 18,00,000 [i.e., Rs. 10,00,000 + Rs. 8,00,000 (after discount of 20%)]. Turnover of Unit B is Rs. 4,50,000. The aggregate turnover of February 2019 of X Ltd. is Rs. 22,50,000. If inward supply of goods/services is used partly for Unit A and partly for Unit B, then proportionate amount [which comes to 80% (i.e., Rs. 18,00,000 ÷ Rs. 22,50,000)] is subject to the benefit of input tax credit.
- Generator was purchased for Unit A on November 20, 2018. Full input tax credit was availed during November 2018. However, in February 2019, it is used partly by Unit A and partly by Unit B. As supply from Unit B is exempt from GST, partial reversal of input tax credit pertaining to generator is required during February 2019 which will be calculated as follows-

Particular	CGST Rs.	SGST Rs.
Input credit availed during November 2018 (18% of Rs. 3,50,000, out of which 50% is CGST and 50% is SGST) (a)	31,500	31,500
Life of generator or any capital goods in months (for GST purposes it is always 60 months)		
ITC attributable for one month [(a) ÷ 60]	525	525
ITC attributable to Unit B (20% of Rs. 525)	105	105

Answer 1(b) (4 Marks)

Computation of value of taxable supply and GST payable: Rs.	
1. Development of information technology software (taxable – deemed supply of service)	10,00,000
2. On-site development of software (taxable – deemed supply of service)	7,50,000
3. Sale of pre packaged software which is put on media (supply of goods and liable for GST)	15,00,000
4. License to use software was given to different clients (taxable – deemed supply of service)	30,00,000
5. Upgradation of information technology software (taxable – deemed supply of service)	12,00,000
6. Programming of software (taxable – deemed supply of service)	2,50,000

Value of taxable supply	77,00,000
GST payable @18%	13,86,000

Answer 1(c) (4 Marks)

It was held in GKB Lens (P) Ltd., In re [2018] 93 taxmann.com 477 (AAR-West Bengal) that the first proviso to rule 28 of CGST Rules, 2017 shows that where goods are supplied to a recipient for further supply as such, the valuation of these goods when transferred from the supplier to the recipient may, at the option of the supplier, be determined at 90% of the price that will be charged by the recipient to its customer, not being a related person. The two clauses important to note in this proviso are: (1) goods received by the recipient are to be sold to a customer not being a related person and (2) the determination of value at 90% of the price that will be charged by the recipient to this customer is an option. Whether or not the supplier avails this option is solely the discretion of the supplier. The second proviso to rule 28 does not mention, unlike first proviso, —where goods are supplied to a recipient for further supply as such, nor is the proviso barred to such goods when further supplied as such. In other words, the second proviso is applicable for both, goods further supplied to non related customers and to goods used in and for the course of business. It is stated that the value declared in the invoices shall be deemed to be the open market value of the goods. The applicant has the option of not supplying goods to its branches under the first proviso of rule 28 and is eligible to value these goods by applying the terms of the second proviso to rule 28.

Answer 2(a) (4 Marks)

The computation is as follows:

Particular	Duty	Total
CIF or Assessable value [₹ 50,000 × Rs. 45]		22,50,000
Add: Basic Customs Duty (BCD) 10%	225000	225000
Add: SWS on BCD 10%	22500	22500
Landed value of goods	247500	2497500
Add: anti-subsidy duty 18.95%	473276	473276
Value for levy of Integrated Goods & Services Tax (IGST)	720776	2970776
Add: IGST 18%	534740	534740
Total duties payable	1255516	3505516

Answer 2(b) (4 Marks)

The Bombay High Court differently interpreted the liability of the Custodian. As per section 45 of the Customs Act, the person referred to in sub-section (1) thereof can only be the person approved by the Commissioner of Customs. It excludes a body of persons, who by virtue of a law for the time being in force, is entrusted with the custody of goods by incorporation of law under another enactment, (for example, the Port Trust Act in the given case). The recovery of

duty in respect of pilfered goods could only be from the approved person and the Port Trust is not liable to pay duty on goods pilfered while in their possession [Board of Trustees of the Port of Bombay v UOI 2009 (241) ELT 513 (Bom)]. Therefore, demands made by the Department and importer are not justifiable in law.

Answer 2(c) (2 Marks each)

- (i) As per section 12(7) of the IGST Act, the place of supply of services provided by way of organisation of a cultural, artistic, sporting, scientific, educational or entertainment event including supply of services in relation to a conference, fair, exhibition, celebration or similar events to a person other than a registered person, shall be the place where the event is actually held and if the event is held outside India, the place of supply shall be the location of recipient. Since, Mr. Ali is not a registered person, the place of supply shall be the place where the event is held, here as the marriage ceremony is held in Jaipur, therefore, the place of supply shall be Jaipur. The location of the supplier and the location of recipient is irrelevant. If the marriage ceremony is organised in Dubai, then the place of supply would have been the location of the recipient. Since, Mr. Ali resides in Raipur, therefore, the place of supply shall be Raipur.
- (ii) In the case of Caltech Polymers (P) Ltd., In re [2018] 92 taxmann.com 142/67 GST 95 (AAR- Ker.) it is held that from the plain reading of the definition of '_business_' it can be safely concluded that the supply of food by the applicant to its employees would definitely come under sub-clause (b) of section 2(17) of the CGST Act as a transaction incidental or ancillary to the main business. Even though there is no profit as claimed by the applicant on the supply of food to its employees, there is '_supply_' as provided in section 7(1)(a). The applicant would definitely come under the definition of '_supplier_' as provided in clause (105) of section 2. Further, since the applicant recovers the cost of food from its employees, there is consideration as defined in section 2(31). Thus, recovery of food expenses from the employees for the canteen services provided by applicant would come under the definition of '_outward supply_' as defined in section 2(83) of the Act, and therefore, taxable as a supply of service under GST.

Answer 2(d) (2 Marks)

As per rule 35 of the CGST Rules, 2017 transaction value and GST liability is as follows: The Transaction value should be taken, as cum-tax-price and tax payable should be calculated by making back calculations. Hence, the transaction value is as follows: The transaction value = Rs. 100 x 100/118 = Rs.

84.75 IGST = Rs. 100 x 18/118 = Rs. 15.25 Total invoice price = Rs. 100.00 [CCE v Maruti Udyog Ltd. (2002) 141 ELT 3 (SC)]

Answer 3(a) (5 Marks)

Time of supply of goods will be as follows:

Date of Invoice (DoI)	Date of Payment (DoP)	Time of Supply (ToS)
1. Earlier of — (A) 15.12.2018 (actual), or (B) Date of supply (05.12.2018) or 6 months from removal (01.06.2019), whichever is earlier = 05.12.2018	25.12.2018	05.12.2018
2. Earlier of — (A) 15.12.2018 (actual), or (B) Date of supply (15.12.2018) or 6 months from removal (01.06.2019), whichever is earlier = 15.12.2018	12.12.2018	15.12.2018 (ToS = DoI = 15.12.2018 in case of non-composition dealer)
3. Earlier of — (A) 25.07.2019 (actual), or (B) Date of supply (25.07.2019) or 6 months from removal (01.06.2019), whichever is earlier = 01.06.2019.	20.07.2019	01.06.2019

Answer 3(b) (5 Marks)

The amount of drawback is computed as follows:

Goods	Period of use	Import duty	Drawback rate	Drawback
Motor car for personal use	6 months and 20 days = 3 quarters	Rs. 5,00,000	100% - 4% per quarter × 3 quarters = 88%	Rs. 4,40,000
Wearing apparel	20 days (assumed they were used)	Rs. 65,000	Not allowed on wearing apparel re-exported after use	Nil
Computer systems	Nil	Rs. 50,00,000	98%	Rs. 49,00,000

Answer 3 (c) (4 Marks)

In the given case, since the invoice is issued within the prescribed period of 30 days from the date of completion of provision of service, the time of supply, shall be the: Date of invoice (i.e. 20.08.20XX) or— Date of receipt of payment (i.e. 15.08.20XX) [Refer note below] whichever is earlier, i.e.— 15.08.20XX. Note: Date of payment is:- 1. date on which the payment is entered in the books of

account (i.e. 15.08.20XX) or 2. date on which the payment is credited to the bank account of the person liable to pay tax (ie. 25.08.20XX) whichever is earlier, i.e., 15.08.20XX

Answer 4 (a) (5 Marks)

Computation of Value of taxable supply of Goods:

Particular	Rs.
Value of machine	1500000
Less:	
(1) Taxes other than CGST /SGST/IGST charged separately by the supplier [WN-1]	
(2) Weighment and loading charges [WN-2]	
(3) Consultancy Charges in relation to pre-installation planning [WN-2]	
(4) Testing Charges [WN-2]	
(5) Inspection Charges charged before supply [WN-2]	
(6) Trade discount actually allowed shown separately in invoice [WN-4]	(24000)
Add: Subsidy received from third party for timely supply of machine to recipient [WN-3]	50000
	1526000
GST	163500
Value of Taxable Supply	1362500

Working Notes: In the given question, for the purpose of determining the assessable value of the supply of goods-

- (1) As per Section 15(2)(a) of CGST Act, 2017, any duty, taxes, cesses, fees and other charges, charged separately by supplier are to be included in value of taxable supply.
- (2) As per Section 15(2)(c) of CGST Act, 2017, any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods shall be included in the value of taxable supply. Hence, weighment and loading charges, consultancy charges, testing charges and inspection charges shall also be included in the value of taxable supply.
- (3) As per Section 15(2)(e), the value of supply shall include subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments. Hence, subsidy received from third party for timely supply of machine to recipient will be included in the value of taxable supply whereas subsidy received from Central government for setting up factory in backward region shall not be included in value of taxable supply.
- (4) As per Section 15(3) (a), the value of the supply shall not include any

discount which is given before or at the time of the supply if such discount has been duly recorded in the invoice issued in respect of such supply. Hence, the same is deductible to arrive at value of taxable supply.

- (5) As per Section 15(2)(a) of the CGST Act, 2017, value of supply shall not include any taxes or cesses levied under CGST Act, SGST Act, UTGST Act and the GST (Compensation to States) Act, if charged separately by the supplier.

Answer 4 (b) (3 Marks)

In this case the supplier and recipient are not related persons. Although a condition is imposed on the recipient on affecting the sale, such a condition has no bearing on the contract price. This is a case of distress sale, and in such a case, it cannot be said that the supply is lacking 'sole consideration'. Therefore, the price of Rs. 5,00,000 will be accepted as value of supply.

Answer 4 (c) (3 Marks)

CCE v Decorative Laminates (I) Pvt. Ltd. 2010 (257) ELT 61 (Kar) The High Court held that the circumstances made out under section 23 of the Customs Act, 1962, were not applicable to the present case since the destruction of the goods or loss of the goods had not occurred before the clearance for home consumption within the meaning of that section. There will be no remission of duty if the goods had become unfit for use on account of non-availability of orders for clearance within the period or extended period as given by the authorities, their continuance in the warehouse will not attract section 23 of the Act. Therefore, from the above it is evident that the department is correct.

Answer 4 (d) (3 Marks)

Since exporter has export performance in at least past 2 years, it is eligible for advance authorisation for annual requirement. The entitlement would be:

- 300% of (Rs. 42,00,000 + Rs. 10,00,000) = Rs. 1,56,00,000; or,
- Rs. 1,00,00,000

Whichever is higher, i.e. Rs. 1,56,00,000.

Answer 5 (a) (4 Marks)

Special Audit Section 66

- a) At any stage of Scrutiny, inquiry or investigation, if Assessment comm. Is of the opinion that the Value has not been correctly declared or the credit availed in not within the normal limit. He may with the prior approval of Commissioner, issue direction to the registered person to get his records/Books examined and audited by CA/Cost Acct.
- b) The special Audit can be directed even accounts are already audited under other provisions of GST/Any other Law.

- c) The Auditor as nominated by Commissioner shall submit a Report within 90 Days to AC
- d) The AC may extend the said period of 90 Days by a Further period of 90 Days on application by Registered person or by CA/Cost Accountant for sufficient Cause
- e) The Expense of Audit Including remuneration of Auditor shall be determined and paid by Commissioner
- f) The Registered Person shall be given an opportunity of being heard in respect of any material gathered on the basis of Audit Report which is proposed to be used in any proceeding under the Law

Answer 5 (b) (4 Marks)

Interest payable after 60 Days from acknowledgment of application i.e. from 15th January 18 to 23rd January 2018 i.e. 9 Days @ 6% p.a.

$$240000 \times 9/365 \times 6\% = \text{Rs. } 355$$

Answer 5 (c) (4 Marks)

Statement showing amount to be paid by Royal Ltd. as on 15th November 2017

S. No. Particulars Amount to be paid (Rs.)

Workings (i) Inputs lying in stock 17,366
Rs. 1,44,720 x 12/100 = Rs.17,366 (ii) Inputs in process (i.e. Work in Progress) 9,262
Rs.77,184 x 12/100 = Rs.9,262 (iii) Inputs contained in finished goods lying in stock 28,944
Rs.4,82,400 x 50% x 12/100 = Rs.28,944 (iv) Capital goods 51,333 Useful life as per rule 44(1)(b) = 5 years (i.e. 60 months). No. of months capital goods have been in use = 4 months 5 days (i.e. 5 months) The useful remaining life in months = 55 months
2,00,000 x 28% x 55/60 = Rs. 51,333 Amount to be paid by Royal Ltd. 1,06,906
Amount payable by Royal Ltd. = Rs. 1,06,906 Less: ITC Receivable = Rs. (2,79,104) Excess ITC = Rs. 1,72,198 Excess ITC in electronic credit ledger of Rs. 1,72,198 shall lapse as 15th November 2017.

Answer 5 (d) (2 Marks)

These capital goods not received back by 24th August 2020 by M/s Z Ltd., after processing. As per section 143(4) of the CGST Act, 2017 principal will be required to pay the tax on supply of capital goods. The time of supply is 25th August 2017. If the principal decided to pay tax on 25th August 2020 he will have to pay tax with interest of 3 year.

Answer 6(a) (4 Marks)

Computation of input tax credit available to Aryan Ltd. for September, 2018:

Items	Reasons	Rs.
Steel rods	input tax credit not available, as invoice is missing	—
Machine tools	input tax credit is available for September,	18,000

	2018, date of payment is not irrelevant if payment is made within 180 days from the date of invoice	
Stainless steel sheets	when input is received in installments, input tax credit is available only on receipt of last installment, input tax credit will be available October, 2018	—
Air-conditioner for office	input tax credit is not available as GST is included in 'actual cost' for calculating depreciation u/s 32 of Income-tax Act	
Heating system for canteen	input tax credit is available even if installed in canteen	28,000
Corporate membership of Lions Club	input tax credit is not available on club membership	—
	Total	46000

Answer 6 (b) (2 Marks each)

- Exempt vide Entry No. 61
- Exempt vide Entry No. 66

Answer 6(c) (2 Marks)

Every owner/operator/warehouse/god-down and every transporter whether Registered or not shall maintain records of the consigner, Consignee and other details as May prescribed

If such person is not already registered they shall obtain a Unique Enrollment number by applying electronically at GST Common portal

Transporters registered in more than one state/UT

A transporter having registration in more than one state/UT would have more than one GSTIN as well. A transporter who so registered may apply for Unique Common enrollment Number by submitting the details in prescribed form using any one of his GSTIN Upon Validation of detail furnished, a Unique Common enrollment number shall be generated and communicated once a transporter has obtained a unique common enrollment number, he shall not be eligible to use any of the GSTIN for the purpose of E-Way Bill under chapter XVI of these Rules

Answer 6 (d) (2 Marks)

- an order of the Commissioner or other authority empowered to direct transfer of proceedings from one officer to another officer; or
- an order pertaining to the seizure or retention of books of account, register and other documents; or
- an order sanctioning prosecution under this Act; or

d) an order passed under section 80.

Answer 6 (e) (2 Marks)

Aggregate turnover = $116.82 \times 100/118 = \text{Rs. } 99 \text{ lakh}$. Since, aggregate turnover in the preceding financial year does not exceed Rs. 1 crore, M/s CELL Private Limited is eligible for composition Scheme.





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