

**VGFNLM**  
**INDIRECT TAX**  
**TEST PAPER - 1 MAY 19 EXAM - HINT-ANSWERS**

**Answer to Q. No. 1 (1 Mark each)**

i	ii	iii	iv	v	vi	vii	viii	ix	x
b	c	d	c	b	a	a	d	a	b
xi	xii	xiii	xiv	xv	xvi	xvii	xviii	xix	xx
c	a	b	a	b	d	a	a	c	a
xxi	xxii	xxiii	xxiv	xxv	xxvi	xxvii	xxviii	xxix	xxx
b	d	d	d	a	b	b	a	c	d

**Answer to Q. No. 2 (a) (2 Marks)**

Time of Supply = 21.02.17

**Answer to Q. No. 2 (b) (2 Marks)**

Tuesday - Wednesday 24:00

**Answer to Q. No. 2 (c) (2 Marks)**

Old Rate = 18%

**Answer to Q. No. 2 (d) (2 Marks)**

\$4100 = 287000

**Answer to Q. No. 2 (e) (2 Marks)**

Refer Class Notes

**Answer to Q. No. 3 (15 Marks)**

S. No.	Particular	ITC
(i)	Computation of amount of ITC credited to Electronic Credit Ledger, for the month of October, 20XX	
(a)	Machinery 'U' - 'A' [Note 1]	36,000
(b)	Machinery 'V' [Note 2]	18,000
(c)	Machinery 'W' [Note 3]	-
(d)	Machinery 'X' - [Note 4]	36,000
(e)	Machinery 'Y' [Note 5]	-
(f)	Machinery 'Z' [Note 6]	-
(g)	Raw Material used for manufacturing 'Alpha' [Note 7]	27,000
(h)	Raw Material used for manufacturing 'Beta' [Note 7]	-
(i)	Raw Material used for manufacturing 'Gama' [Note 7]	18,000

	<b>ITC credited to Electronic Credit Ledger, for the month of October, 20XX</b>	1,35,000
<b>(ii)</b>	<b>Computation of common credit for the month of October, 20XX</b>	
(a)	Value of 'A' for Machinery 'U' purchased on 01.10.20XX	36,000
(b)	Value of 'A' for Machinery 'X' purchased 3 years before 01.10.20XX and used for effecting both taxable and exempt supplies from 01.10.20XX	36,000
(c)	Value of 'A' for Machinery 'Y' purchased 4 years before 01.10.20XX and used for effecting both taxable and exempt supplies from 01.10.20XX [Note 8]	14,400
	<b>Total common credit for the month of October, 20XX – T<sub>c</sub> [Note 9]</b>	<b>86,400</b>
<b>(iii)</b>	<b>Computation of common credit attributable to exempt supplies, for the month of October, 20XX</b>	
(a)	ITC attributable to a month on common capital goods during their useful life – T <sub>m</sub> [Note 10]	1,440
(b)	ITC at the beginning of October, 20XX on all common capital goods whose useful life remains during the tax period – T <sub>r</sub> [Note 11]	2,340
(c)	<b>Common credit attributable to exempt supplies, for the month of October 20XX – T<sub>e</sub></b> = T <sub>r</sub> x Turnover of exempt supplies during October 20XX / Total turnover of XYZ Pvt. Ltd. during October 20XX = 2,340 x 10,00,000 / 25,00,000	<b>936</b>
<b>(iv)</b>	<b>Computation of GST liability of the company for October 20XX payable through Electronic Cash Ledger</b>	
	IGST payable on 'Alpha' [Rs. 9,00,000 x 18%]	1,62,000
	IGST payable on 'Beta' [Exempt]	Nil
	IGST payable on 'Gamma' [Rs. 6,00,000 x 18%]	1,08,000
	Total IGST payable on outward supply	2,70,000
	Common credit attributable to exempt supplies for the month of October, 20XX [Note 12]	936
	Total output tax liability of October, 20XX	2,70,936
	Less: ITC available in the Electronic Credit Ledger	1,35,000
	<b>IGST payable from Electronic Cash Ledger</b>	<b>1,35,936</b>

**Notes:**

- (1) ITC in respect of capital goods used commonly for effecting taxable supplies and exempt supplies denoted as 'A' shall be credited to the electronic credit ledger [Rule 43(1)(c) of the CGST Rules, 2017].
- (2) ITC in respect of capital goods used or intended to be used exclusively for effecting supplies other than exempted supplies but including zero rated supplies shall be credited to the electronic credit ledger [Rule 43(1)(b) of the CGST Rules, 2017].
- (3) ITC in respect of capital goods used or intended to be used exclusively for effecting exempt supplies shall not be credited to electronic credit ledger [Rule 43(1)(a) of the CGST Rules, 2017].

- (4) Where any capital goods earlier used exclusively for effecting exempt supplies is subsequently **also** used for effecting taxable supplies, the value of 'A' shall be arrived at by reducing the ITC at the rate of 5% for every quarter or part thereof and the amount 'A' shall be credited to the electronic credit ledger [Proviso to rule 43(1)(c) of the CGST Rules, 2017]. Thus, 'A' shall be computed as under- = Rs. 90,000 – Rs. 54,000 (Rs. 90,000 × 5% × 12 quarters) = Rs. 36,000
- (5) Machinery 'Y' is being used for effecting both taxable and exempt supplies from 01.10.20XX. Prior to that it was exclusively used for effecting taxable supplies. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (6) Machinery 'Z' is being used for effecting both taxable and exempt supplies from October 1, two years prior to 01.10.20XX. Therefore, ITC in respect of such machinery would have already been credited to the electronic credit ledger.
- (7) ITC in respect of inputs used for effecting taxable supplies will be credited in Electronic Credit Ledger. ITC in respect of inputs used for effecting exempt supplies will not be credited in the electronic credit ledger [Rule 42 of CGST Rules, 2017].
- (8) Where any capital goods earlier used exclusively for effecting taxable supplies is subsequently also used for effecting exempt supplies, the value of 'A' arrived at by reducing the input tax at the rate of 5% for every quarter or part thereof shall be added to the common credit (aggregate value 'Tc' – Refer Note 9 below) [Proviso to rule 43(1)(d) of the CGST Rules, 2017]. Thus, 'A' shall be computed as under- = Rs. 72,000 – Rs. 57,600 (Rs. 72,000 × 5% × 16 quarters) = Rs. 14,400
- (9) The aggregate of the amounts of 'A' credited to the electronic credit ledger, to be denoted as 'Tc', shall be the common credit in respect of capital goods for a tax period [Rule 43(1)(d) of the CGST Rules, 2017]
- (10) ITC attributable to a month on common capital goods during their useful life (Tm) shall be computed in accordance with rule 43(1)(e) of CGST Rules, 2017 as under: =  $Tc \div 60 = Rs. 86,400 \div 60 = Rs. 1,440$
- (11) Useful life of capital goods used commonly for effecting taxable supplies and exempt supplies shall be taken as five years from the date of the invoice for such goods [Rule 43(1)(c) of the CGST Rules, 2017]. Machinery 'Z' is used commonly for effecting taxable and exempt supplies from October 1, two years before 01.10.20XX. Hence, its useful life remains in the month of October 20XX and therefore, Tr will be aggregate of Tm (ITC pertaining to a month) for Machinery 'Z' and Tm for other machineries computed under point 3.(a). Tm for machinery 'Z' will be computed as under:  $Rs. 54,000 \div 60 = Rs. 900$  Tr = Tm for machinery 'Z' + Tm for other machineries Tr = Rs. 900 + Rs. 1,440 = Rs. 2,340
- (12) Common credit attributable to the exempt supplies (Te) along with the applicable interest (which is to be ignored in this case) shall, during every tax period of the useful life of the concerned capital goods, be added to the output tax liability of the person making such claim of credit [Rule 43(2)(h) of the CGST Rules, 2017].

**Answer to Q. No. 4 (15 Marks)**

As per section 10(3) of the CGST Act, 2017 read with Notification No. 8/2017 CT dated 27.06.2017 as amended, the option availed of by a registered person to pay tax under composition scheme shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds Rs. 1 crore [Rs. 75 lakh in case of Special Category States except Uttarakhand and Jammu and Kashmir]. As per section 2(6) of the CGST Act, 2017, aggregate turnover means the aggregate value of all taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis), exempt supplies, exports of goods or services or both and inter-State supplies of persons having the same PAN, to be computed on all India basis but excludes CGST, SGST/UTGST, IGST and GST Compensation Cess.

In the given case, the firm is registered under the composition scheme in the State of Maharashtra. The aggregate turnover of the firm exceeds Rs. 1 crore on 03.10.20XX [aggregate of both taxable and exempt turnover from 01.04.20XX to 03.10.20XX, i.e. Rs. 1,00,05,000 (Rs. 97,65,000 + Rs. 1,03,000 + Rs. 33,250 + Rs. 58,750 + Rs. 45,000)]

The inward supplies of goods transportation services in respect of which the firm has to pay tax under reverse charge have not been included in the aggregate turnover in terms of section 2(6) of the CGST Act, 2017. The tax is payable under reverse charge on such services as the applicable rate of tax on such services is given as 5% and not 12%, in which case the GTA would have been liable to pay tax under forward charge [Notification No. 13/2017 CT (R) dated 28.06.2017 as amended].

Thus, the firm will have to pay tax under regular scheme (Section 9 of the CGST Act, 2017) from 03.10.20XX.

**Output tax liability of B & D Company under composition scheme**

During the period when the firm pays tax under composition scheme, i.e. from 01.04.20XX to 02.10.20XX, tax will be payable on quarterly basis and no ITC will be available [Section 10(4) read with sub-sections (2) and (7) of section 39 of the CGST Act, 2017]. Further, since the firm is trading in goods, tax will be payable @ ½% [Effective rate - 1% (½% CGST + ½% SGST)] of the turnover of **taxable** supplies of goods (i.e. 'P') in the State [Section 10(1) read with rule 7 of CGST Rules, 2017]. The tax liability for the quarters ended June, 20XX, September, 20XX and December, 20XX under composition scheme will be computed as under-

Particulars	Quarter ended 30.06.20XX (Rs.)	Quarter ended 30.09.20XX (Rs.)	Quarter ended 31.12.20XX (Rs.)
Turnover of 'P' (Taxable supplies)	40,00,000	30,00,000	1,75,000 [1,00,000 + 31,250 + 43,750]
CGST @ 0.5% [A1]	20,000	15,000	875

SGST @ 0.5% [B1]	20,000	15,000	875
Inward supply on which tax is payable under reverse charge [Service of goods transportation availed from a GTA @ 5%]	60,000 [(1,40,000/7) x 3]	60,000 [(1,40,000/7) x 3]	Nil [Paid on 10th day for goods transported between 11th to 20th day of the month, so the same will be assessed under regular scheme]
CGST @ 2.5% [A2]	1,500	1,500	-
SGST @ 2.5% [B2]	1,500	1,500	-
Total CGST [A1 + A2]	21,500	16,500	875
Total SGST [B1 + B2]	21,500	16,500	875
Total CGST liability for the period from 01.04.20XX to 02.10.20XX		38,875 [21,500 + 16,500 + 875]	
Total SGST liability for the period from 01.04.20XX to 02.10.20XX		38,875 [21,500 + 16,500 + 875]	

### Answer to Q. No. 5 (15 Marks)

- (i)
- a) Rule 138(1) of the CGST Rules, 2017 provides that e-way Bill is mandatorily required to be generated if the goods are moved, *inter alia*, in relation to supply and the consignment value exceeds Rs. 50,000. Further, explanation 2 to rule 138(1) stipulates that the consignment value of goods shall be the value, determined in accordance with the provisions of section 15, declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and also includes CGST, SGST/UTGST, IGST and cess charged, if any, in the document and shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods. Accordingly, in the given case, the consignment value will be as follows: = Rs. 48,000 × 118% = Rs. 56,640. Since the movement of goods is in relation to supply of goods and the consignment value exceeds Rs. 50,000, e-way bill is mandatorily required to be issued in the given case.
- b) An e-way bill contains two parts namely, Part A to be furnished by the registered person who is causing movement of goods of consignment value exceeding Rs. 50,000/- and part B (transport details) is to be furnished by the person who is transporting the goods. Where the goods are transported by the registered person as a consignor or the recipient of supply as the consignee, whether in his own conveyance or a hired one

or a public conveyance, by road, the said person shall generate the e-way bill on the common portal after furnishing information in Part B [Rule 138(2)]. Where the goods are transported by railways or by air or vessel, the e-way bill shall be generated by the registered person, being the supplier or the recipient, who shall, either before or after the commencement of movement, furnish, on the common portal, the information in Part B [Rule 138(2A)]. Where the goods are handed over to a transporter for transportation by road, the registered person shall furnish the information relating to the transporter on the common portal and the e-way bill shall be generated by the transporter on the said portal on the basis of the information furnished by the registered person in Part A [Rule 138(3)]. Where the consignor or the consignee has not generated the e-way bill and the aggregate of the consignment value of goods carried in the conveyance is more than Rs. 50,000/-, the transporter, except in case of transportation of goods by railways, air and vessel, shall, in respect of inter-State supply, generate the e-way bill on the basis of invoice or bill of supply or delivery challan, as the case may be, and may also generate a consolidated e-way bill on the common portal prior to the movement of goods [Rule 138(7)].

- c) It is mandatory to generate e-way bill in all cases where the value of consignment of goods being transported is more than Rs. 50,000/- and it is not otherwise exempted in terms of rule 138(14) of CGST Rules, 2017. If e-way bills, wherever required, are not issued in accordance with the provisions contained in rule 138, the same will be considered as contravention of rules. As per section 122(1)(xiv) of CGST Act, 2017, a taxable person who transports any taxable goods without the cover of specified documents (e-way bill is one of the specified documents) shall be liable to a penalty of Rs. 10,000/- or tax sought to be evaded (wherever applicable) whichever is greater. Moreover, as per section 129(1) of CGST Act, 2017, where any person transports any goods or stores any goods while they are in transit in contravention of the provisions of this Act or the Rules made thereunder, all such goods and conveyance used as a means of transport for carrying the said goods and documents relating to such goods and conveyance shall be liable to detention or seizure.

- (ii) The goods to be moved to another State for replacement under warranty is not a 'supply'. However, rule 138(1) of the CGST Act, 2017, *inter alia*, stipulates that every registered person who causes movement of goods of consignment value exceeding Rs. 50,000:

- (i) in relation to a supply; or
- (ii) for reasons other than supply; or
- (iii) due to inward supply from an unregistered person,



shall, generate an electronic way bill (E-way Bill) before commencement of such movement. CBIC vide Q 9. of FAQs on E-way Bill has also clarified that even if the movement of goods is caused due to reasons others than supply [including replacement of goods under warranty], e-way bill is required to be issued. Thus, in the given case, since the consignment value exceeds Rs. 50,000, e-way bill is required to be mandatorily generated. Therefore, the claim of Power Electricals Ltd. that e-way bill is not mandatorily required to be generated as the movement of goods is caused due to reasons other than supply, is not correct.

- (iii) Beauty Cosmetics Ltd. would be required to prepare two separate e-way bills since each invoice value exceeds Rs. 50,000 and each invoice is considered as one consignment for the purpose of generating e-way bills. The FAQs on E-way Bill issued by CBIC clarify that if multiple invoices are issued by the supplier to one recipient, that is, for movement of goods of more than one invoice of same consignor and consignee, multiple e-way bills have to be generated. In other words, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved. Multiple invoices cannot be clubbed to generate one e-way bill. However, after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

### **Answer to Q. No. 6(a) (5 Marks)**

Section 22(1) of the CGST Act, 2017 *inter alia* provides that every supplier, whose aggregate turnover in a financial year exceeds Rs. 20,00,000, is liable to be registered under GST in the State/ Union territory from where he makes the taxable supply of goods and/or services. However, a person exclusively engaged in the business of supplying goods and/or services that are not liable to tax or are wholly exempt from tax is not liable to registration in terms of section 23(1)(a) of CGST Act, 2017. In the given case, the turnover of the company for the half year ended on 30.09.20XX is Rs. Rs 40 lakh which is more than the threshold limit of Rs. 20 lakh. Therefore, as per section 22 of CGST Act 2017, the company will be liable to registration. However, since SNP Pvt. Ltd. supplied exempted goods till 31.10.20XX, it was not required to be registered till that day; though voluntary registration was allowed under section 25(3) of the CGST Act, 2017. However, the position will change from 01.11.20XX as the supply of goods become taxable from that day and the turnover of company is above Rs. 20 lakh. It is important to note here that in terms of section 2(6) of the CGST Act, 2017, the aggregate turnover limit of Rs. 20 lakh includes exempt turnover also.

Therefore, turnover of 'Z' will be considered for determining the limit of Rs. 20 lakh even though the same was exempt from GST. Therefore, the company

needs to register within 30 days from 01.11.20XX (the date on which it becomes liable to registration) in terms of section 25(1) of the CGST Act, 2017. Further, the company cannot avail exemption of Rs. 20 lakh from 01.11.20XX as the GST law does not provide any threshold exemption from payment of tax but threshold exemption from obtaining registration (which in this case had been crossed).

Rule 43(1)(a) of the CGST Rules, 2017 disallows input tax credit on capital goods used or intended to be used exclusively for effecting exempt supplies. However, as per section 18(1)(d) of the CGST Act, 2017, where an exempt supply of goods and/or services by a registered person becomes a taxable supply, such person gets entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relating to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable. Rule 40(1)(a) of the CGST Rules, 2017 lays down that the credit on capital goods can be claimed after reducing the tax paid on such capital goods by 5% per quarter of a year or part thereof from the date of the invoice. Therefore, in the given case, SNP Pvt. Ltd. could not claim credit on machinery till the time the supply of product 'Z' for which said machinery was being used was exempt. However, it can claim credit from 31.10.20XX - the day immediately preceding the date from which the supply of product 'Z' became taxable (01.11.20XX). The credit will be available for the remaining useful life of the machinery and will be computed as follows:

Date of purchase of machinery	01.07.20XX
Date on which credit becomes eligible	31.10.20XX
Number of quarters for which credit is to be reduced	2 (including part of quarter)
GST paid on machinery [Rs. 20,00,000 x 18%]	Rs. 3,60,000
Credit to be reduced [Rs. 3,60,000 x 5% x 2]	Rs. 36,000
<b>Amount of credit that can be taken [Rs. 3,60,000 – Rs. 36,000]</b>	<b>Rs. 3,24,000</b>

### Answer to Q. No. 6(b) (5 Marks)

A firm of Chartered Accountants, being a supplier of professional services (other than restaurant services) is not eligible to apply for composition scheme. Therefore, it has to discharge its tax liability under regular provisions at the applicable rates.

The answer will not change even if the turnover of the firm had been Rs. 90 lakh since the ineligibility of the firm to opt for composition scheme is not linked with the turnover of the firm, but with the nature of the services supplied by the firm.



Therefore, since even with turnover of Rs. 90 lakh the ineligibility in respect of nature of services supplied by firm exists i.e., the firm provides professional services and not restaurant services; it will not be eligible for composition scheme.

The answer will not change even if the firm is providing support services to restaurants as only the supplier providing restaurant services *per se* are eligible for composition scheme.

### **Answer to Q. No. 6(c) (5 Marks)**

- (i) Section 17(5)(a) specifically blocks ITC on motor vehicles and other conveyances. However, the same is allowed when the motor vehicles and other conveyances are used, *inter alia*, for further supply of such vehicles or conveyances. Thus, ITC on cars purchased from the manufacturer for making further supply of such cars will be allowed. However, ITC on the cars destroyed in accident will not be allowed as the ITC on goods destroyed for whichever reason is specifically blocked under section 17(5)(h) of CGST Act.
- (ii) Section 17(5)(c) specifically blocks ITC on works contract services when supplied for construction of an immovable property (other than plant and machinery) except where it is an input service for further supply of works contract service. Since, in this case the car shed is not a plant and machinery and the works contract service is not used for further supply of works contract service, ITC thereon will not be allowed.

### **Answer to Q. No. 7(a) (5 Marks)**

Particular	Amount \$
Price of the machine at the factory of the exporter	20,000
Add: Transport charges up to the port in the country of the exporter [Note 1]	1,000
Handling charges at the port in the country of the exporter [Note 1]	100
Charges for design and engineering work undertaken for the machine in US [Note 2]	5,000
Buying commission [Note 3]	Nil
FOB value	26,100.00
Add: Freight charges up to India	2,000.00
Insurance charges @ 1.125% of FOB [Note 4]	293.63
Transport charges from Mumbai to Cochin port [Note 5]	Nil
CIF value	28,393.63
Add: Unloading and handling charges paid at the place of importation [Note 6]	Nil

Assessable value	28,393.63
Assessable value in Indian rupees @ Rs. 60/ per \$	Rs. 17,03,617.80
<b>Assessable value (rounded off)</b>	Rs. 17,03,618

**Notes:**

- (1) The cost of transport, loading, unloading and handling charges associated with the delivery of the imported goods to the place of importation are includible in the assessable value [Rule 10(2)(a) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 (CVR)].
- (2) Design and engineering work undertaken elsewhere than in India and necessary for the production of the imported goods is includible in the assessable value [Rule 10(1)(b)(iv) of the CVR].
- (3) Buying commission is not included in the assessable value [Rule 10(1)(a)(i) of the CVR].
- (4) If insurance cost is not ascertainable, the same shall be added @ 1.125% of FOB value of the goods [Third proviso to rule 10(2) of the CVR].
- (5) Cost of insurance, transport, loading, unloading, handling charges associated with transshipment of imported goods to another customs station in India is not included in the assessable value [Sixth proviso to rule 10(2) of the CVR].
- (6) By virtue of the amendment carried out in rule 10(2) of the CVR vide Notification No. 91/2017Cus. (NT) dated 26.09.2017, only charges incurred for delivery of goods "to" the place of importation are includible in the transaction value. The loading, unloading and handling charges associated with the delivery of the imported goods at the place of importation are not to be added to the CIF value of the goods. [Circular No. 39 / 2017 Cus. dated 26.09.2017].

**Answer to Q. No. 7(b) (5 Marks)**

The eligible AEO shall make payment as under:- [Notification 134/2016 Dated w.e.f.16-11-17]

BOE Returned for Payment	Date of Payment
From 1 <sup>st</sup> to 15 <sup>th</sup> Day of Month	16 <sup>th</sup> Day of Month
From 16 <sup>th</sup> Day till Last day of Month except March	1 <sup>st</sup> Day of following Month
From 16 <sup>th</sup> Day till 31 <sup>st</sup> March	31 <sup>st</sup> March

If eligible Importer fails to pay duty in full by due date more than once in a period of three consecutive months shall not be permitted to make deferred payment till default.

**Answer to Q. No. 7(c) (5 Marks)**

- a) Hyderabad
- b) Chennai
- c) Chennai
- d) Kolkata
- e) Mumbai



**CA VIJAY GAURAV**

Twitter.com/Ca Vijay Gaurav  
Insta.com/ca Vijay Gaurav  
www.cavijaygaurav.com  
Ca Vijay Gaurav Fan Club

**Combo**  
**27000/-**

**STOP THINKING START DOING**

**SPECIAL FEATURES**

- ✓ 100% COVERAGE
- ✓ HAND WRITTEN NOTES
- ✓ 500+ PRACTICAL QUESTION EACH SUBJECT
- ✓ 500+ EXEMPTIONS IN DT / IDT
- ✓ TEST EVERY SATURDAY

**9873827301**  
**9212130780**

**CA FINAL REGULAR**

**NOV 2019/MAY 2020 EXAM**

**Face To Face**  
**DIRECT TAX**  
Time: 7:00 AM - 10:00 AM  
Days : Mon to Sat  
**15000/-**

**2019**  
**START**  
**17 June**

**Face To Face**  
**INDIRECT TAX**  
Time: 10:30 AM - 01:30 PM  
Days : Mon to Sat  
**15000/-**

VG PROFESSIONAL STUDIES

**VG**  
CA VIJAY GAURAV