

Mock Test Paper - Series II: August, 2026

Date of Paper: 12<sup>th</sup> August, 2026

Time of Paper: 10 A.M. to 1.P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

SOLUTIONS

Division A – Multiple Choice Questions

| MCQ No. | Most Appropriate Answer | MCQ No. | Most Appropriate Answer |
|---------|-------------------------|---------|-------------------------|
| 1.      | (c)                     | 7.      | (c)                     |
| 2.      | (c)                     | 8.      | (d)                     |
| 3.      | (b)                     |         |                         |
| 4.      | (a)                     |         |                         |
| 5.      | (a)                     |         |                         |
| 6.      | (d)                     |         |                         |

Division B – Descriptive Questions

1. Computation of total income of Mr. Sumit as per section 115BAC for A.Y. 2026-27

| Particulars                                                                                                                                                                                                   | ₹             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Net profit as per profit and loss account                                                                                                                                                                     | 50,85,000     |
| <b>Less:</b> Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources" | <u>30,000</u> |
|                                                                                                                                                                                                               | 50,55,000     |
| <b>Add:</b> Expenses either not allowable or to be considered separately but charged in the profit & loss account                                                                                             |               |
| - Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]                                                                                                                    | 5,000         |
| - Advertisement in the souvenir of political party not allowable as per section 37(2B)                                                                                                                        | 2,500         |

|                                                                                                                                                                                                                                                                                                |                 |                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|
| - Payment made to political party by cheque not an expenditure incurred wholly and exclusively for business purpose and hence not allowable under section 37(1).                                                                                                                               |                 | 1,00,000         |
| - Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law. However, interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. |                 | 5,300            |
| - Depreciation as per books                                                                                                                                                                                                                                                                    |                 | 1,07,250         |
| - 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)                                                                                                                                                        |                 | <u>24,000</u>    |
|                                                                                                                                                                                                                                                                                                |                 | <b>52,99,050</b> |
| Less: Depreciation allowable as per Income-tax Act, 1961                                                                                                                                                                                                                                       | 65,000          |                  |
| Depreciation on building [₹ 20 lakhs x 10%] is allowable. However, deduction under section 35AD is not allowable under default tax regime.                                                                                                                                                     | <u>2,00,000</u> | <u>2,65,000</u>  |
| <b>Profits and gains from business or profession</b>                                                                                                                                                                                                                                           |                 | <b>50,34,050</b> |
| <b>Income from Other Sources</b>                                                                                                                                                                                                                                                               |                 |                  |
| Interest on income-tax refund                                                                                                                                                                                                                                                                  |                 | <u>4,570</u>     |
| <b>Gross Total Income</b>                                                                                                                                                                                                                                                                      |                 | <b>50,38,620</b> |
| <b>Less:</b> Deduction under section 80GGC [Contribution to Political Party not allowable under default tax regime]                                                                                                                                                                            |                 | <u>Nil</u>       |
| <b>Total Income</b>                                                                                                                                                                                                                                                                            |                 | <b>50,38,620</b> |

**Computation of tax liability as per section 115BAC**

| Particulars                                   | ₹      | ₹ |
|-----------------------------------------------|--------|---|
| <b>Tax on total income of ₹ 50,38,620</b>     |        |   |
| Upto ₹ 4,00,000                               | Nil    |   |
| ₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]    | 20,000 |   |
| ₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]  | 40,000 |   |
| ₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs] | 60,000 |   |
| ₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs] | 80,000 |   |

|                                                                                                |                 |                         |
|------------------------------------------------------------------------------------------------|-----------------|-------------------------|
| ₹ 20,00,001 – ₹ 24,00,000 [@25% of ₹ 4 lakhs]                                                  | 1,00,000        |                         |
| ₹ 24,00,001 – ₹ 50,38,620 [@30% of ₹ 26,38,620]                                                | <u>7,91,586</u> |                         |
|                                                                                                |                 | 10,91,586               |
| Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore] |                 | <u>1,09,159</u>         |
|                                                                                                |                 | <b>12,00,745</b>        |
| Less: Marginal relief (See computation below)                                                  |                 | <u>82,125</u>           |
|                                                                                                |                 | 11,18,620               |
| Add: Health and education cess@4%                                                              |                 | <u>44,745</u>           |
| <b>Total tax liability</b>                                                                     |                 | <b><u>11,63,365</u></b> |
| <b>Total tax liability (Rounded off)</b>                                                       |                 | <b><u>11,63,370</u></b> |

**Computation of marginal relief**

| Particulars |                                                                                             | ₹                |
|-------------|---------------------------------------------------------------------------------------------|------------------|
| (A)         | Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC        | 12,00,745        |
| (B)         | Tax payable on total income of ₹ 50 lakhs as per section 115BAC                             | <u>10,80,000</u> |
| (C)         | Excess tax payable (A-B)                                                                    | <u>1,20,745</u>  |
| (D)         | Marginal relief (₹ 1,20,745 – ₹ 38,620, being the amount of income in excess of ₹ 50 lakhs) | 82,125           |

**Note** - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

**Computation of total income of Mr. Sumit for A.Y. 2026-27  
under optional tax regime**

| Particulars                                                                                      | ₹ | ₹                |
|--------------------------------------------------------------------------------------------------|---|------------------|
| <b>Gross Total Income as per default tax regime under section 115BAC</b>                         |   | 50,38,620        |
| Add: Depreciation on building [₹ 20 lakhs x 10%]                                                 |   | <u>2,00,000</u>  |
|                                                                                                  |   | 52,38,620        |
| Less: Warehousing charges                                                                        |   | <u>22,50,000</u> |
| <b>Gross Total Income excluding profits and gains from specified business under section 35AD</b> |   | <b>29,88,620</b> |

|                                                                                                                                                                                                        |                  |                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>Profits and gains from specified business u/s 35AD</b>                                                                                                                                              |                  |                  |
| Warehousing charges                                                                                                                                                                                    | 22,50,000        |                  |
| Less: Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce | <u>20,00,000</u> | <u>2,50,000</u>  |
| <b>Gross Total Income as per normal provisions of the Act</b>                                                                                                                                          |                  | 32,38,620        |
| Less: Deduction under section 80GGC for contribution to Political Party is allowable since the payment is made by way of a cheque.                                                                     |                  | 1,00,000         |
| <b>Total Income as per regular provisions of the Act</b>                                                                                                                                               |                  | <b>31,38,620</b> |

**Computation of tax liability of Mr. Sumit for A.Y. 2026-27  
under optional tax regime**

| Particulars                                    | ₹               | ₹                      |
|------------------------------------------------|-----------------|------------------------|
| <b>Tax on total income of ₹ 31,38,620</b>      |                 |                        |
| Upto ₹ 2,50,000                                | Nil             |                        |
| ₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]   | 12,500          |                        |
| ₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]  | 1,00,000        |                        |
| ₹ 10,00,001- ₹ 31,38,620 [@30% of ₹ 21,38,620] | <u>6,41,586</u> | 7,54,086               |
| Add: Health and education cess@4%              |                 | <u>30,163</u>          |
| <b>Total tax liability</b>                     |                 | <b><u>7,84,249</u></b> |
| <b>Total tax liability (rounded off)</b>       |                 | <b>7,84,250</b>        |

**Computation of adjusted total income and AMT of Mr. Sumit for A.Y. 2026-27**

| Particulars                                                                  | ₹                 | ₹                       |
|------------------------------------------------------------------------------|-------------------|-------------------------|
| <b>Total Income (computed above as per regular provisions of income tax)</b> |                   | <b>31,38,620</b>        |
| Add: Deduction under section 35AD                                            | 20,00,000         |                         |
| Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]           | <u>(2,00,000)</u> | <b><u>18,00,000</u></b> |
| <b>Adjusted Total Income</b>                                                 |                   | <b><u>49,38,620</u></b> |
| Alternative Minimum Tax@18.5%                                                |                   | 9,13,645                |

|                                          |  |                 |
|------------------------------------------|--|-----------------|
| Add: Health and education cess@4%        |  | 36,546          |
| <b>Total tax liability</b>               |  | <b>9,50,191</b> |
| <b>Total tax liability (rounded off)</b> |  | <b>9,50,190</b> |

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is Rs. 9,50,190.

Since the tax liability of Mr. Sumit under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2026-27 and pays tax under optional tax regime. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

**AMT credit to be carried forward under section 115JEE**

| Particulars                                                                  | ₹               |
|------------------------------------------------------------------------------|-----------------|
| Tax liability under section 115JC                                            | 9,50,190        |
| Less: Tax liability under the regular provisions of the Income-tax Act, 1961 | 7,84,250        |
|                                                                              | <b>1,65,940</b> |

2. (a) (i) Any person responsible for paying any sum i.e. ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the contractee, tax has to be deducted at source u/s 194C at the time of payment of such sum or at the time of credit of such sum to the account of the contractor, whichever is earlier.

In the present case, XYZ Ltd. has entered into separate contracts with Meta Pvt. Ltd. for arranging road transport and providing catering services, for ₹ 25,000 and ₹ 90,000, respectively. Both 'carriage of passengers' and 'catering' are expressly covered as "work" under section 194C. Even though the services are different, the aggregate payment to the contractor during the financial year is considered for the threshold limit.

Hence, TDS@2% is applicable on ₹ 1,15,000, being the aggregate amount paid to Meta Pvt. Ltd. The amount of tax to be deducted by XYZ Ltd. would be ₹ 2,300.

- (ii) The payment by TPAs was made on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. under cashless

claims which was on account of services rendered by hospitals to various patients. These services are primarily medical services and are liable to deduct tax at source under section 194J on all such payments to hospitals etc. as clarified by CBDT through Circular No. 8/2009 dated 24.11.2009.

In the present case, Suresh Health Solutions Ltd. is required to deduct tax u/s 194J @10% on payment of ₹ 12 lakhs. The amount of tax to be deducted by Suresh Health Solutions Ltd. would be ₹ 1,20,000.

**(b) Computation of total income of Mr. Anshuman for A.Y. 2026-27**

| Particulars |                                                                                                                    | ₹                | ₹         |
|-------------|--------------------------------------------------------------------------------------------------------------------|------------------|-----------|
| <b>I</b>    | <b>Salaries</b>                                                                                                    |                  |           |
|             | Salary from Paschim Ltd. [₹ 90,000 x 12]                                                                           | 10,80,000        |           |
|             | Less: Deduction under section 16 - Standard deduction upto ₹ 75,000                                                | <u>75,000</u>    | 10,05,000 |
| <b>II</b>   | <b>Capital Gains</b>                                                                                               |                  |           |
|             | <b>On buy back of equity shares of Beta Ltd.</b>                                                                   |                  |           |
|             | Consideration received on buy back of shares                                                                       | Nil              |           |
|             | Less: Cost of acquisition                                                                                          | <u>20,00,000</u> |           |
|             | Higher of                                                                                                          |                  |           |
|             | - Actual cost of acquisition of ₹ 20 lakhs [10,000 shares @ ₹ 200 per share]                                       |                  |           |
|             | - Lower of FMV as on 31.1.2018 i.e., ₹ 19 lakhs and full value of consideration i.e., Nil                          |                  |           |
|             | Long term capital loss on buy back of shares                                                                       | (20,00,000)      |           |
|             | <b>On sale of plot</b>                                                                                             |                  |           |
|             | Sale consideration                                                                                                 | 70,00,000        |           |
|             | Less: Brokerage @1%                                                                                                | <u>70,000</u>    |           |
|             | Net sale consideration                                                                                             | 69,30,000        |           |
|             | Less: Cost of acquisition [Indexation benefit is not available on transfer which took place on or after 23.7.2024] | <u>22,00,000</u> |           |
|             |                                                                                                                    | 47,30,000        |           |
|             | Less: Exemption under section 54F                                                                                  | <u>27,30,159</u> |           |
|             | Amount invested for acquiring residential house within 2 years would qualify for                                   |                  |           |

|            |                                                                                                                                                                                                                                                                |                  |                         |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|
|            | exemption against long term capital gain arising from transfer of plot. Since the amount invested is less than the net consideration, proportionate capital gains is exempt<br>[₹ 47,30,000 x ₹ 40,00,000/₹ 69,30,000]                                         |                  |                         |
|            | Long term capital gain on transfer of plot                                                                                                                                                                                                                     | 19,99,841        |                         |
|            | Less: Set off of long term capital loss on buy back of original shares against long term capital gain on transfer of plot to the extent of Balance long term capital loss of ₹ 159 on buy back of original shares is to be carried forward to subsequent year. | <u>19,99,841</u> | Nil                     |
| <b>III</b> | <b>Income from Other Sources</b>                                                                                                                                                                                                                               |                  |                         |
|            | Dividend on buy back of shares [10,000 x 250]                                                                                                                                                                                                                  |                  | <u>25,00,000</u>        |
|            | <b>Total Income</b>                                                                                                                                                                                                                                            |                  | <b><u>35,05,000</u></b> |

3. (a) An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed ₹ 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year. Even if his total income, other than from foreign sources, exceeds ₹ 15,00,000, he would be resident in India if stays in India for 120 days or more during the relevant previous year and 365 days or more during the 4 previous years immediately preceding the relevant previous year.

Since Mrs. Supriya is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2025-26, she is non-resident for the A.Y. 2026-27.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

**Computation of total income and tax liability of Mrs. Supriya for A.Y. 2026-27**

| Particulars                                                                                                                     | Amount (₹) |
|---------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>Salaries</b>                                                                                                                 |            |
| Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor it is received in India] | Nil        |

|                                                                                                                                                                                                                                          |        |                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-----------------|
| <b>Income from House Property</b>                                                                                                                                                                                                        |        |                 |
| Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]                                                      | 90,000 |                 |
| Less: Deduction u/s 24(a) @ 30%                                                                                                                                                                                                          | 27,000 | 63,000          |
| <b>Capital Gains</b>                                                                                                                                                                                                                     |        |                 |
| Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]                                                                  |        | 3,00,000        |
| Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies] |        | 60,000          |
| <b>Gross Total Income</b>                                                                                                                                                                                                                |        | <b>4,23,000</b> |
| Less: <b>Deduction under Chapter VI-A</b>                                                                                                                                                                                                |        |                 |
| Deduction under section 80C [Not available under default tax regime]                                                                                                                                                                     |        | Nil             |
| <b>Total Income</b>                                                                                                                                                                                                                      |        | <b>4,23,000</b> |

- (b) (i) **The statement is correct.** The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). For this purpose, relative means, *inter alia*, spouse and children of the individual. Therefore, Mr. Nimit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Nimit's eligibility for deduction under section 80E.
- (ii) **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (iii) **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Lila would not be deemed to be her income for A.Y. 2026-27.

**4. (a) Computation of gross total income of Mr. Sohan for the A.Y.2026-27**

| Particulars |                                                                                       | Amount<br>(₹) | Amount<br>(₹)    |
|-------------|---------------------------------------------------------------------------------------|---------------|------------------|
| <b>I</b>    | <b>Salaries</b>                                                                       |               |                  |
|             | Basic Salary (₹ 60,000 x 9 + ₹ 61,800 x 3)                                            |               | 7,25,400         |
|             | Dearness Allowance (40% of ₹ 7,25,400)                                                |               | 2,90,160         |
|             | Telephone allowance (₹ 500 x 12)                                                      |               | 6,000            |
|             | Employer's contribution to RPF (15% of ₹ 7,25,400)                                    | 1,08,810      |                  |
|             | Less: Exempt [12% of salary i.e., 12% x 8,99,496 (7,25,400 + 60% of 2,90,160)]        | 1,07,940      | 870              |
|             | Interest accrued in the RPF@12%                                                       | 25,800        |                  |
|             | Less: Exempt 9.5% p.a.                                                                | 20,425        | 5,375            |
|             | <b>Value of Rent Free accommodation</b>                                               |               |                  |
|             | 10% of salary in respect of the period of occupation (-) rent recovered from employee |               | 90,550           |
|             | 10% (7,25,400 + 60% of 2,90,160 +6000)                                                |               |                  |
|             | Reimbursement of salary of domestic servant [₹ 2,500 x 12]                            |               | 30,000           |
|             | <b>Perquisite value of motor car</b>                                                  |               |                  |
|             | Running and maintenance costs incurred by employer                                    | 50,000        |                  |
|             | Less: Specified as per Rule 3 [₹ 2,400 x 12]                                          | 28,800        | 21,200           |
|             | Professional tax paid by employer                                                     |               | 1,500            |
|             | <b>Gross Salary</b>                                                                   |               | <b>11,71,055</b> |

|           |                                                                                                                                                                                                                                                                                                                                                                                  |          |                  |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------|
| <b>II</b> | Less: Deduction under section 16                                                                                                                                                                                                                                                                                                                                                 |          |                  |
|           | Standard deduction                                                                                                                                                                                                                                                                                                                                                               | 50,000   |                  |
|           | Professional tax paid                                                                                                                                                                                                                                                                                                                                                            | 2,500    | 52,500           |
|           | <b>Taxable Salary</b>                                                                                                                                                                                                                                                                                                                                                            |          | <b>11,18,555</b> |
|           | <b>Profit and gains from business or profession</b>                                                                                                                                                                                                                                                                                                                              |          |                  |
|           | Where the amount of Mr. Sohan (₹ 6 lakh, in this case) is invested by Mrs. Sohan in a business as her capital, proportionate share of profit or loss, as the case may be, computing taking into account the value of the investment as on 1.4.2025 to the total investment in the business (₹ 10 lakhs) would be included in the income of Mr. Sohan [loss of ₹ 1,20,000 x 6/10] | (72,000) | -                |
|           | [Business loss of ₹ 72,000 cannot be set off against salary income. It has to be carried forward to next year]                                                                                                                                                                                                                                                                   |          |                  |
|           | <b>Gross Total Income</b>                                                                                                                                                                                                                                                                                                                                                        |          | <b>11,18,555</b> |

- (b) (i) **Incorrect** - The return of income of LLP should be verified by a designated partner. Any other partner can verify the Return of Income of LLP only in the following cases:
- (I) where for any unavoidable reason such designated partner is not able to verify the return, or,
  - (II) where there is no designated partner.
- (ii) **Incorrect** - In case Mr. Naresh offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2026, shall be 31<sup>st</sup> July 2026.
- In case, Mr. Naresh wants to declare business income lower than ₹ 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31<sup>st</sup> October 2026.

**OR**

- (b) Where a person, who has been allotted PAN and is required to intimate his Aadhaar number, has failed to intimate the same on or before the 31.3.2022, the PAN of such person shall become inoperative.

**Consequences of failure to intimate Aadhar Number**

A person, whose PAN has become inoperative, would be liable for further consequences for the period commencing from the date specified by the Board i.e., 1.7.2023 till the date it becomes operative, namely –

- (i) refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- (ii) interest shall not be payable on such refund for the period, beginning with the date specified and ending with the date on which it becomes operative;
- (iii) where tax is deductible at source at a higher rate, in accordance with provisions of section 206AA;
- (iv) where tax is collectible at source at a higher rate, in accordance with provisions of section 206CC.

If Mr. Abhay wants to intimate his Aadhaar number to the prescribed authority on 1.9.2025, he would be liable to pay a fee of ₹ 1,000 as specified under section 234H. His PAN would become operative within 30 days from the date of intimation of Aadhaar number and would not be liable for the above consequences once his PAN becomes operative.

**INTERMEDIATE COURSE: GROUP - I**  
**PAPER – 3: TAXATION**  
**SECTION – B: GOODS AND SERVICES TAX**  
**SOLUTIONS**  
**Division A – Multiple Choice Questions**

**Case Scenario**

| Question No. | Answer                                                                                                                                         |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| 9.           | (d) ₹ 68,00,000                                                                                                                                |
| 10.          | (a) The amount of ITC related to such procurement of goods is not available to SLPL.                                                           |
| 11.          | (c) 15 <sup>th</sup> October                                                                                                                   |
| 12.          | (b) excluded from transaction value as it is not directly linked to price of supply                                                            |
| 13.          | (c) The restriction of 180 days for payment of consideration is not applicable in the present case.                                            |
| 14.          | (b) blocked since ITC on motor vehicles for transportation of persons with seating capacity upto 13 persons (including the driver) is blocked. |
| 15.          | (b) qualifies as supply under Para 2 of Schedule I of the CGST Act, 2017 as restaurant and liquor shop are establishments of distinct persons. |
| 16.          | (d) 1 <sup>st</sup> July                                                                                                                       |

**Division B – Descriptive Questions**

5. (a) **Computation of minimum net GST payable in cash by Swagat Pvt. Ltd. for the month of September**

| Particulars                                                        |                                                                | Value of supply<br>(₹) | CGST<br>@ 9%<br>(₹) | SGST<br>@ 9%<br>(₹) | IGST<br>@ 18%<br>(₹) |
|--------------------------------------------------------------------|----------------------------------------------------------------|------------------------|---------------------|---------------------|----------------------|
| <b>Output tax payable</b>                                          |                                                                |                        |                     |                     |                      |
| Intra-State supply of goods to Shreya Enterprises [Since arranging | Place of supply is location where movement of goods terminates | 18,50,000              | 1,66,500            | 1,66,500            | Nil                  |

|                                                                                                                                                                                                                                                              |          |           |                 |                 |                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|-----------------|-----------------|-----------------|
| freight is the liability of supplier, it is a composite supply and thus, freight charges are added to the value of principal supply.]                                                                                                                        |          |           |                 |                 |                 |
| Inter-State supply to Supreme Ltd. [Municipal tax is includible in value since it is a tax levied under a law other than GST law and is charged separately.]                                                                                                 |          | 35,60,000 | Nil             | Nil             | 6,40,800        |
| Intra-State supply to Bhuwan Ltd. [Place of supply is location of recipient. Discount given at the time of supply is deductible from the value since duly recorded in the invoice.]                                                                          | 5,70,000 |           | 51,300          | 51,300          | Nil             |
| Inter-State supply to Guru Enterprise [Place of supply in case of bill to ship model is principal place of business of a third person at whose instructions the goods are delivered by supplier to recipient. Thus, it is considered as Inter State supply.] | 2,00,000 |           | Nil             | Nil             | 36,000          |
| <b>Total output tax</b>                                                                                                                                                                                                                                      |          |           | <b>2,17,800</b> | <b>2,17,800</b> | <b>6,76,800</b> |
| Less: ITC available [Refer note below]                                                                                                                                                                                                                       |          |           | Nil             | Nil             | (4,17,000)      |

|                                                             |  |               |               |                 |
|-------------------------------------------------------------|--|---------------|---------------|-----------------|
| [IGST credit to be utilized first towards payment of IGST.] |  |               |               |                 |
| CGST credit utilized for payment of CGST                    |  | (1,55,000)    | Nil           |                 |
| SGST credit utilized for payment of SGST                    |  | Nil           | (1,85,000)    |                 |
| <b>Minimum net GST payable in cash</b>                      |  | <b>62,800</b> | <b>32,800</b> | <b>2,59,800</b> |

**Working Note:**

**Computation of ITC available**

| Particulars                                                                                                                   |                                                                 | Value<br>(₹) | CGST<br>(₹)                  | SGST<br>(₹)                  | IGST<br>(₹)                   |
|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|--------------|------------------------------|------------------------------|-------------------------------|
| Opening balance                                                                                                               |                                                                 |              | 20,000                       | 50,000                       | 75,000                        |
| Inter-State purchase of raw material<br>[ITC is not available on goods worth ₹ 1,00,000 since not received during the month.] | Place of supply is location where movement of goods terminates. | 19,00,000    | Nil                          | Nil                          | 3,42,000<br>[19,00,000 × 18%] |
| Purchase of machinery<br>[ITC is not available since depreciation has been claimed on the GST component.]                     |                                                                 | 2,00,000     | Nil                          | Nil                          | Nil                           |
| Intra-State purchase of truck<br>[ITC on motor vehicles used for transportation of goods is available.]                       |                                                                 | 15,00,000    | 1,35,000<br>[15,00,000 × 9%] | 1,35,000<br>[15,00,000 × 9%] | Nil                           |
| Purchase of car<br>[ITC on motor vehicles for                                                                                 |                                                                 | 10,00,000    | Nil                          | Nil                          | Nil                           |

|                                                                                                                                                                                                                                           |  |          |                 |                 |                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|----------|-----------------|-----------------|-----------------|
| transportation of persons with seating capacity up to 13 persons (including driver), is blocked, except when used for specified purposes.]                                                                                                |  |          |                 |                 |                 |
| Purchase of goods for construction of an additional floor<br>[ITC on goods used in construction of immovable property (other than plant or machinery) on one's own account is blocked if capitalized in the books.]                       |  | 5,00,000 | Nil             | Nil             | Nil             |
| <b>Total</b>                                                                                                                                                                                                                              |  |          | <b>1,55,000</b> | <b>1,85,000</b> | <b>4,17,000</b> |
| <b>Note</b> – In above answer, where location of supplier and place of supply are in two different States, it is an inter-State supply and where location of supplier and place of supply are in same State, it is an intra-State supply. |  |          |                 |                 |                 |

**(b) Computation of value of taxable supply made by XYZ Pvt. Ltd.**

| Particulars                                                                                                                                                          | Amount (₹) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| List price of the goods (exclusive of taxes and discounts)                                                                                                           | 50,000     |
| Tax levied by Municipal Authority on the sale of such goods<br>[Taxes other than GST, if charged separately, are includible in the value of supply.]                 | 6,000      |
| Packing charges<br>[Being incidental expenses, same are includible in the value of supply.]                                                                          | 2,500      |
| Subsidy received from NGO<br>[Since subsidy is received from a non-Government body and directly linked to the price, the same is includible in the value of supply.] | Nil        |

|                                                                                                                                                                                                          |                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| Payment made by ABC Pvt. Ltd. in relation to service provided by vendor to XYZ Pvt Ltd.<br>[Amount that supplier is liable to pay, but incurred by the recipient, is includible in the value of supply.] | 2,000                             |
| Interest for delayed payment (rounded off)<br>[Includible in the value of supply]                                                                                                                        | 4,237<br>$[5,000 \times 100/118]$ |
| <b>Value of taxable supply</b>                                                                                                                                                                           | <b>64,737</b>                     |

6. (a) If the recipient is registered, the location of such person is the place of supply. However, if the recipient is not registered, the place of supply is the place where the goods are handed over for transportation. [Section 12(8)].

Accordingly, place of supply in given cases is as follows:

- (i) Since Sunrise Textiles Pvt. Ltd. is a registered person, the place of supply is the location of the recipient, i.e., Chennai.
  - (ii) Since Mr. Arvind is not registered, the place of supply is the location where the goods are handed over for transportation, i.e., Bengaluru, Karnataka.
- (b) Services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, are exempt from GST, if the consideration charged for such performance is not more than ₹ 1,50,000. However, such exemption is not available in respect of service provided by such artist as a brand ambassador.

Since Ms. Priya Kapoor is the brand ambassador of 'Buxur' soap manufactured by Sabhyata Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by Sabhyata Pvt. Ltd. to promote its brand will not be eligible for the above-mentioned exemption and thus, be liable to GST. The fact that the proceeds of the concert will be donated to a charitable organization by Ms. Priya will not have any bearing on the eligibility or otherwise to the above-mentioned exemption.

7. (a) (i) E-invoicing is mandatory for all registered businesses (except specified class of persons) with an aggregate turnover in any preceding financial year from 2017-18 onwards greater than ₹ 5 crore, in respect of B2B supplies (supply of goods or services or both to a registered person) or for exports. Thus, the advice given by tax consultant of Fashion Queen Ltd. for issuance of e-invoices mandatorily in the current financial year is valid in law as the aggregate turnover of Fashion Queen Ltd. has exceeded the threshold limit i.e. ₹ 5 crore in the preceding financial year.

(ii) Following entities are exempt from the mandatory requirement of e-invoicing:

- Special Economic Zone units
- Insurer or banking company or financial institution including NBFC
- GTA supplying services in relation to transportation of goods by road in a goods carriage
- Supplier of passenger transportation service
- Person supplying services by way of admission to exhibition of cinematograph films in multiplex screens
- Government Department and a local authority

Thus, above mentioned entities are not required to issue e-invoices even if their turnover exceeds ₹ 5 crore in the preceding financial year from 2017-18 onwards.

Thus, Public Works Department (PWD), Government of Uttar Pradesh, being a Government Department is not required to issue e-invoices in the current financial year even if it's aggregate turnover has exceeded ₹ 5 crore.

(b) The proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where, inter alia, -any person who has taken voluntary registration has not commenced business within six months from the date of registration.

Thus, *suo-motu* cancellation of registration of Mr. X by proper officer is valid in law since Mr. X, a voluntarily registered person, has not commenced his business within 6 months from the date of registration.

Further, where the registration of a person is cancelled *suo-motu* by the proper officer, such registered person may apply for revocation of the cancellation to such proper officer, within 90 days from the date of service of the order of cancellation of registration.

However, said period of 90 days may, on sufficient cause being shown and for reasons to be recorded in writing, be extended by the Commissioner or an officer authorised by him in this behalf, not below the rank of Additional Commissioner/Joint Commissioner, as the case may be, for a further period not exceeding 180 days

Thus, considering the above provisions, the contention of Department is not valid in law as extension can be sought in the prescribed time limit for revocation of cancellation of registration. The contention raised by Mr. X is valid in law as

extension in time limit is allowed on sufficient cause being shown and for reasons to be recorded in writing.

8. (a) Composite supply means a supply made by a taxable person to a recipient and:
- comprises two or more taxable supplies of goods or services or both, or any combination thereof.
  - which are naturally bundled and supplied in conjunction with each other, in the ordinary course of business
  - one of which is a principal supply.

This means that in a composite supply, goods or services or both are bundled owing to natural necessities. The elements in a composite supply are dependent on the 'principal supply'. Principal supply means the supply of goods or services which constitutes the predominant element of a composite supply and to which any other supply forming part of that composite supply is ancillary.

- (b) A supplier who has opted for composition scheme is not required to maintain records relating to;
- (a) **Stock of goods:** Accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.
- (b) **Details of tax:** Account, containing the details of tax payable (including tax payable under reverse charge), tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.

Thus, Mr. Sky is not required to maintain above mentioned records.