

MOCK TEST PAPER 1
FINAL COURSE: GROUP – II
PAPER 8: INDIRECT TAX LAWS
SUGGESTED ANSWERS

Division A

Answer Key

Question No.	Answer
1.1	(a) ₹ 35,00,000
1.2	(b) Bareilly, Uttar Pradesh
1.3	(b) ₹ 39,50,000
1.4	(b) Wednesday-Thursday at 12.00 midnight
1.5	(d) No; since it is an exempt supply.
2.1	(b) The service is chargeable to tax and Biswaas Ltd. will discharge the tax liability.
2.2	(a) Yes. However, it could have provided services up to a value of ₹ 11,12,500 under composition levy during the current financial year.
2.3	(c) ₹ 13,626
2.4	(d) ii
2.5	(a) POS for transaction between M/s Sarvesh Enterprises and M/s Akash Enterprises is the location of principal place of business of M/s Sarvesh Enterprises, i.e. Gujarat and IGST is leviable on such supply. POS for transaction between M/s Sarvesh Enterprises and Biswaas Ltd. is the location at which the movement of goods terminates i.e. at the factory of Biswaas Ltd. in Lucknow, Uttar Pradesh and IGST is leviable on such supply.
3	(b) Sukhmal & Co.: ₹ 90,00,000; Dharama & Co.: ₹ 90,00,000; Mr. Divyanshu: ₹ 90,00,000
4	(b) (i) and (iii)
5	(c) outside the realm of GST
6	(a) Only (iv)
7	(a) (i), (ii) and (iv)
8	(d) Lower of export price or normal value

Division B

1. Computation of net GST payable in cash from Electronic Cash Ledger for the month of January

S. No.	Particulars	Amount (₹)	CGST (₹)	SGST (₹)	IGST (₹)
A.	GST liability on outward supply				
	Machinery supplied without consideration [Not a supply as it is made without consideration and is also not covered in Schedule I because machinery has been supplied to an unrelated person (brother not being wholly dependent on Ram Kumar) and ITC has also not been availed on the same.]	Nil	-	-	-

	Consignment of machines supplied at the instruction of third person [Since supply is a bill to ship to supply where the goods are delivered on the direction of a third person- XX Enterprises, goods are deemed to be received by XX Enterprises and thus, the place of supply is Tamil Nadu. Hence, it is an inter-State supply.]	6,00,000			1,08,000 [6,00,000 × 18%]
	Stock counting service to Gungun Manufacturers of Gujarat [Intra-State supply as the place of supply is the location of recipient, viz. Gujarat.]	1,10,000	9,900 [1,10,000 × 9%]	9,900 [1,10,000 × 9%]	NIL
	Direct Selling Agent services provided by an individual (Ram Kumar) to a bank [Tax is payable by bank under reverse charge.]	2,00,000	-	-	-
	Advance received for intra-State supply [Tax on advance received for supply of goods of ₹ 5,00,000 will be payable at the time of issuance of invoice.]	4,00,000	36,000 [4,00,000 × 9%]	36,000 [4,00,000 × 9%]	
	Finished goods sold from the premises of the job worker [Supply of goods by principal from the job worker's premises is regarded as supply by principal only irrespective of the location of job worker. Therefore, since the place of supply is the location where movement of goods terminates for delivery to recipient, i.e., Maharashtra, it is an intra-State supply.]	1,00,000	9,000 [1,00,000 × 9%]	9,000 [1,00,000 × 9%]	
Total tax liability on outward supplies			54,900	54,900	1,08,000
B.	GST liability on inward supplies under reverse charge				
	GTA services availed from M/s Ghoomghoom Transporters [Tax is payable under reverse charge on the GTA services received by a registered person and on which tax is payable @ 5%. Further, it is an inter-State supply since supplier is located in Kolkata and place of supply is Gujarat (location of registered recipient).]	1,00,000			5,000 [1,00,000 × 5%]

C.	Input tax credit				
	Import of machinery [Input tax, <i>inter alia</i> , includes IGST charged on import of goods.]				90,000
	GTA services availed	1,00,000			5,000
	IGST on invoices received during the month [Full ITC can be claimed only on the invoices uploaded by supplier in Form GSTR-1 and the details of the same have been communicated to the registered person in Form GSTR-2B.]				95,000 + 5,000 =1,00,000
	Less: Input tax reversed [Outward supply, tax on which is payable under reverse charge is considered as exempt supply for the purpose of reversal of ITC.] = ₹ 1,95,000 x ₹ 2,00,000 / ₹ 19,10,000 (₹ 1,95,000 x turnover of exempt supply / total turnover) [The condition for making the payment for the supply within 180 days so that the ITC availed does not get added to the output tax liability does not apply to reverse charge supplies. Thus, ITC on ₹ 4,00,000 will not be affected.]				(20,419)
	<i>Total ITC available for set off</i>		-	-	1,74,581
D.	Computation of net GST payable in cash				
	Total tax liability on outward supplies		54,900	54,900	1,08,000
	Less: ITC of IGST		(54,900)	(11,681)	(1,08,000)
	Forward charge liability on outward supplies payable in cash after set off of ITC		-	43,219	
	Reverse charge liability on inward supplies payable in cash without set off of ITC [Tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash.]				5,000
	Total net GST liability payable in cash		-	43,219	5,000

2. (a)

GST liability of Gupta & Gupta Brothers

	Particulars	Value [₹]	CGST payable [₹]	SGST payable [₹]
A.	GST liability on outward supply			
(i)	Loading, unloading, packing and warehousing of tomato ketchup [Loading, unloading, packing and warehousing of agricultural produce is exempt. However, tomato ketchup is not an agricultural produce.]	4,00,000	36,000 [4,00,000 x 9%]	36,000 [4,00,000 x 9%]
(ii)	Security services to Sudarshan Ltd., a registered person [Tax is payable under reverse charge by the recipient since security services are being provided by a non-body corporate to a registered person.]	-		
(iii)	Security services to Divyajyoti Trust, an unregistered person [Tax is payable under forward charge since security services are being provided by a non-body corporate to an unregistered person.]	1,00,000	9,000 [1,00,000 x 9%]	9,000 [1,00,000 x 9%]
(iv)	Renting of motor vehicle for carrying passengers to Bharat Travels Ltd. where value included cost of fuel [Tax is payable under reverse charge by recipient since such services are provided by a non-body corporate to a body corporate and GST is payable @ 5%.]	-		
(v)	Renting of motor vehicle for carrying passengers to Suvidha & Co., a partnership firm, where supply value included cost of fuel [Tax is payable under forward charge since such services are provided by a non-body corporate to a non-body corporate.]	40,000	1,000 [40,000 x 2.5%]	1,000 [40,000 x 2.5%]
(vi)	Recovery agent services provided to Manimani Finance Ltd., an NBFC [Since such services are being provided to an NBFC, tax on the same is payable by recipient - Manimani Finance Ltd. - under reverse charge [RCM].]	--	--	--

(viii)	Services provided to Gujarat Government administration under a Health Training programme [Exempt since the total expenditure borne by the Gujarat Government is more than 75%.]	--	--	--
Total GST liability on outward supplies			46,000	46,000
B.	GST liability on inward supplies under reverse charge			
(vi)	Availed legal consultancy service from Dhruv and Co., a law firm, for business purposes [Legal services provided by a partnership firm of advocates/individual advocate other than a senior advocate to a business entity with an aggregate turnover up to such amount in the preceding financial year as makes it eligible for exemption from registration, are exempt from GST. Since Gupta and Gupta Brothers started its business in April in the current financial year, its turnover in the preceding financial year is nil making it eligible for exemption from registration in the preceding financial year and hence, the legal services provided to it are exempt from GST.]	70,000	-	-
GST liability on inward supplies under reverse charge			-	-

(c) **Computation of assessable value of the imported machine**

		US \$
(i)	Cost of the machine at the factory	8,800.00
(ii)	Transport charges up to port	1,500.00
(iii)	Handling charges at the port	<u>250.00</u>
	FOB	10,550.00
(iv)	Freight charges up to India	1,000.00
(v)	Insurance charges @ 1.125% of FOB [Note 1]	<u>118.69</u>
	CIF	11,668.69
		₹
	CIF in Indian rupees @ ₹ 68/ per \$	₹ 7,93,470.92
	Assessable Value	₹ 7,93,470.92
	Assessable Value (rounded off)	₹ 7,93,471

Notes:

- (1) Insurance charges have been included @ 1.125% of FOB value of goods [Third proviso to rule 10(2) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007].
- (2) Buying commission is not included in the assessable value [Rule 10(1)(a)(i) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007].

3. (a)

S. No.	Particulars	Rate of GST
(i)	Supply of laptop bag along with laptop to Mumbai customer [Being naturally bundled, supply of laptop bag along with the laptop is a composite supply which is treated as the supply of the principal supply [viz. laptop] in terms of section 8(a). Accordingly, rate of principal supply, i.e. laptop will be charged.]	18%
(ii)	Supply of kits to Riddhi Stores [It is a mixed supply and is treated as supply of that particular supply which attracts highest tax rate [viz. beauty soap] in terms of section 8(b).]	28%
(iii)	Free gifts to customers [Cannot be considered as supply under section 7 read with Schedule I as the gifts are given to unrelated customers without consideration.]	Nil
(iv)	Event management services provided free of cost to her brother for his son's marriage shall be considered as supply as the services are being provided to a related person. Since it is an individual supply, it will be taxed at the rate applicable on said service.	5%
(v)	Chairs and coolers hired out to Krishna Garden [Since Diksha is not a GTA, transportation services provided by her are exempt vide <i>Notification No. 12/2017 CT (R) dated 28.06.2017</i> . However, since chairs and coolers are hired out along with their transportation, it is a case of composite supply wherein the principal supply is hiring out of chairs and coolers. Accordingly, transportation service will also be taxed at the rate applicable for renting of chairs and coolers*]	12%

**Note: As per section 2(30), composite supply means a supply made by a taxable person to a recipient consisting of two or more taxable supplies. Since in point (v), service of hiring out of chairs & coolers is taxable while transportation service is exempt, it is possible to take a view that this is not a case of composite supply. In that case, the two services will be treated as independent services and taxed accordingly.*

- (b) Services by way of health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST vide exemption notification. *Circular No. 32/06/2018 GST dated 12.02.2018* has clarified that food supplied by the hospital canteen to the in-patients as advised by the doctor/nutritionists is a part of composite supply of healthcare services and is not separately taxable. Thus, it is exempt from GST. However, other supplies of food by a hospital to patients (not admitted) or their attendants or visitors are taxable.

In view of the same, GST is not applicable on the food supplied by Govindam Foods to in-patients as advised by doctors/nutritionists while other supplies of food by it to patients (not admitted) or their attendants/visitors are taxable.

(c) Computation of customs duty and integrated tax payable thereon

Particular	Amount (₹)
Assessable value of sodium nitrite imported	30,00,000
Add: Basic custom duty @ 10% (₹ 30,00,000 × 10%)	3,00,000
Safeguard duty @ 30% on ₹30,00,000 [Safeguard duty is imposable in the given case since share of imports of sodium nitrite from the developing country is more than 3% of the total imports of sodium nitrite into India (Proviso to section 8B(2) of the Customs Tariff Act, 1975)]	9,00,000
Social welfare surcharge @ 10% x ₹3,00,000	30,000
Total	42,30,000
Integrated tax (₹42,30,000 × 12%) [Note]	5,07,600
Total customs duty payable (₹3,00,000 + ₹9,00,000 + ₹30,000 + ₹5,07,600)	17,37,600

Note: It has been clarified by DGFT vide Guidance note that value for calculation of integrated tax shall also include safeguard duty amount.

4. (a) In the given situation, three supplies are involved:

- (i) Services provided by Dhun Pvt. Ltd. to audiences by way of admission to music concert.
- (ii) Services provided by Dhanraj (P) Ltd. to Dhun Pvt. Ltd. by way of organising the music concert.
- (iii) Services provided by Hotel Dumdum to Dhanraj (P) Ltd. by way of accommodation in the Hotel lawns for organising the music concert.

The place of supply in respect of each of the above supplies is determined as under:

- (i) As per the provisions of section 12(6), the place of supply of services provided by way of admission to, *inter alia*, a cultural event shall be the place where the event is actually held.
Therefore, the place of supply of services supplied by Dhun Pvt. Ltd. (Ludhiana, Punjab) to audiences by way of admission to the music concert is the location of the Hotel Dumdum, i.e. Gurugram, Haryana.
- (ii) Section 12(7)(a)(i) stipulates that the place of supply of services provided by way of organization of, *inter alia*, a cultural event to a registered person is the location of such person.
Therefore, the place of supply of services supplied by Dhanraj (P) Ltd. (Delhi) to Dhun Pvt. Ltd. (Ludhiana, Punjab) by way of organising the music concert is the location of the registered person, i.e. Ludhiana (Punjab).
- (iii) As per the provisions of section 12(3)(c) of the IGST Act, 2017, the place of supply of services, by way of accommodation in any immovable property for organizing, *inter alia*, any cultural function shall be the location at which the immovable property is located.
Therefore, the place of supply of services supplied by Hotel Dumdum (Gurugram, Haryana) to Dhanraj (P) Ltd. (Delhi) by way of accommodation in Hotel lawns for organising the music concert shall be the location of the Hotel Dumdum, i.e. Gurugram, Haryana.

- (b) Section 22(1) read with *Notification No. 10/2019 CT dated 07.03.2019 inter alia* provides that every supplier who is exclusively engaged in intra-State supply of goods is liable to be registered under GST in the State/ Union territory from where he makes the taxable supply of goods only when aggregate turnover in a financial year exceeds ₹ 40,00,000.

However, the above provisions are not applicable to few specified States, i.e. States of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry, Sikkim, Telangana, Tripura, Uttarakhand.

Further, 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).

In the given case, the turnover of the company for the half year ended on 30th September is ₹ 45 lakh which is more than the applicable threshold limit of ₹ 40 lakh. Therefore, as per above mentioned provisions, the company should be liable to registration. However, since LMN Pvt. Ltd. supplied exempted goods till 31st October, it was not required to be registered till that day; though voluntary registration was allowed under section 25(3).

However, the position will change from 1st November as the supply of goods become taxable from that day and the turnover of company is above ₹ 40 lakh. It is important to note here that in terms of section 2(6), the aggregate turnover limit of ₹ 40 lakh includes exempt turnover also.

Therefore, turnover of 'X' prior to 1st November will also be considered for determining the limit of ₹ 40 lakh even though the same was exempt from GST. Therefore, the company needs to register within 30 days from 1st November (the date on which it becomes liable to registration) in terms of section 25(1).

- (c) (i) As per section 74(2) of Customs Act, 1962 read with *Notification No. 19/65 Cus dated 06.02.1995* as amended, 65% of import duty is to be paid as duty drawback if goods are used after importation and have been out of customs control for export for a period of more than 12 months but not more than 15 months.

Therefore, amount of duty drawback = ₹ 14,00,000 x 65% = ₹ 9,10,000

- (ii) Amount of duty drawback = ₹ 86,000 x 40% = ₹ 34,400

However, the drawback amount should not exceed one third of the market price of the export product as per rule 9 of the Customs & Central Excise Duties Drawback Rules, 2017.

Thus, upper limit of drawback amount = ₹ 96,000/3 = ₹ 32,000

Thus, the amount of duty drawback in the present case will be restricted to ₹ 32,000

5. (a) (i) Section 97(2) of the CGST Act, 2017 stipulates the questions/matters on which advance ruling can be sought. It provides that advance ruling can be sought for, *inter alia*, determining whether any particular thing done by the applicant with respect to any goods or services or both amounts to or results in a supply of goods or services or both, within the meaning of that term as well as the classification of any goods or services or both. Therefore, Karan can seek the advance ruling for determining whether supply of goods by him amounts to supply of goods under GST law as well as for determining the classification of said goods.
- (ii) No, Karan's view is not correct. As per section 98(6) of CGST Act, 2017, the Authority for Advance Ruling shall pronounce its ruling in writing within 90 days from the date of receipt of application.

(b)

Person	Offence	Prosecution	Arrest	Bail
'Bhaskar'	Non-cognizable offence [Section 132(1)(c) read with section 132(4)]	Upto 1 year and with fine [Section 132(1)(c)(iii)]	No arrest [Section 69(1)]	Bailable Offence [Section 132(4)]
'Raghav'	Non-cognizable offence [Section 132(1)(e) read with section 132(4)]	Upto 5 years and with fine [Section 132(1)(e)(i)]	No arrest [Section 69(1)]	Bailable Offence [Section 132(4)]

- (c) As per rule 3 of the Baggage Rules, 2016, an Indian resident arriving from any country other than Nepal, Bhutan or Myanmar, shall be allowed clearance free of duty articles in his bona fide baggage, that is to say, used personal effects and travel souvenirs; and articles [other than certain specified articles], upto the value of ₹ 50,000 if these are carried on the person or in the accompanied baggage of the passenger.

Thus, there is no customs duty on used personal effects and travel souvenirs and general duty-free baggage allowance is ₹ 50,000 per passenger. Thus, duty liability of Mr. Bandhopadhyaya and his wife is nil for the used personal effects worth ₹ 80,000 and 2 music systems each worth ₹ 50,000.

As per rule 5 of the Baggage Rules, 2016, the jewellery allowance is as follows:

Jewellery brought by	Duty free allowance
Gentleman Passenger	Jewellery upto a weight of 20 grams with a value cap of ₹ 50,000
Lady Passenger	Jewellery upto a weight of 40 grams with a value cap of ₹ 1,00,000

However, the jewellery allowance is applicable only to a passenger residing abroad for more than 1 year.

Consequently, there is no duty liability on the jewellery brought by Mr. Bandhopadhyaya as he had stayed abroad for period exceeding 1 year and weight of the jewellery brought by him is 20 grams with a value less than ₹50,000.

However, his wife is not eligible for this additional jewellery allowance as she had stayed abroad for a period of less than a year. Thus, she has to pay customs duty on the entire amount of jewellery brought by her as she has already exhausted the general duty free baggage allowance of ₹50,000 allowed under rule 3.

6. (a) Section 87 of the CGST Act, 2017 stipulates that when two or more companies are amalgamated/merged in pursuance of an order of court or Tribunal or otherwise and the order is to take effect from a date earlier to the date of the order and any two or more of such companies have supplied/received any goods and/or services to or from each other during the period commencing on the date from which the order takes effect till the date of the order, then such transactions of supply and receipt shall be included in the turnover of supply or receipt of the respective companies and they shall be liable to pay tax accordingly.

For the purposes of the CGST Act, 2017, the said two or more companies shall be treated as distinct companies for the period up to the date of the said order. The registration certificates of the said companies shall be cancelled with effect from the date of the said order.

- (b) Any officer under this Act, authorised by the proper officer not below the rank of Joint Commissioner, shall have access to any place of business of a registered person to inspect books of account, documents, computers, computer programs, computer software whether installed in a computer or otherwise and such other things as he may require and which may be available at such place, for the purposes of carrying out any audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.

Every person in charge of place referred above shall, on demand, make available to the officer so authorised or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under section 66-

- (i) such records as prepared or maintained by the registered person and declared to the proper officer in such manner as may be prescribed;
- (ii) trial balance or its equivalent;
- (iii) statements of annual financial accounts, duly audited, wherever required;
- (iv) cost audit report, if any, under section 148 of the Companies Act, 2013 (18 of 2013);
- (v) the income-tax audit report, if any, under section 44AB of the Income-tax Act, 1961 (43 of 1961); and
- (vi) any other relevant record,

for the scrutiny by the officer or audit party or the chartered accountant or cost accountant within a period not exceeding fifteen working days from the day when such demand is made, or such further period as may be allowed by the said officer or the audit party or the chartered accountant or cost accountant.

- (c) When the imported goods are warehoused, the temporary possession and the custody of the goods are passed on to the warehouse keeper. However, the remaining titular rights of the goods vest with the owner.

Thus, the owner has every access to the goods.

In the course of his dealings with the goods, he may:

- (a) inspect the goods;
- (b) ensure that the goods do not deteriorate or get damaged during storage in the warehouse;
- (c) sort the goods; or
- (d) show the goods for sale.