

# CHAPTER 6

## VALUE OF SUPPLY

### 1. ICAI STUDY MATERIAL QUESTIONS

#### Concept Problem 1

Black and White Pvt. Ltd. has provided the following particulars relating to goods sold by it to Colourful 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	5,000
CGST and SGST chargeable on the goods	10,440
Packing charges (not included in price above)	1,000

Black and White Pvt. Ltd. received INR 2000 as a subsidy from a NGO on sale of such goods. The price of INR 50,000 of the goods is after considering such subsidy.

Black and White Ltd. offers 2% discount on the list price of the goods which is recorded in the invoice for the goods.

Determine the value of taxable supply made by Black and White Pvt. Ltd and also the amount of GST payable if Rate of CGST is 9% and SGST is 9%.

#### Solution

#### Computation of value of taxable supply

Particulars	Amount
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on sale of goods [Includible in value as per section 15(2)(a)]	5,000
CGST and SGST chargeable on the goods [Not includible in the value as per section 15(2)(a)]	-
Packing charges [Includible in the value as per section 15(2)(c)]	1,000
Subsidy received from a non-Government body [Since subsidy is received from a non-Government body, the same is included in the value in terms of section 15(2)(e)]	2,000
<b>Total</b>	<b>58,000</b>
Less: Discount @ 2% on INR 50,000 [Since discount is known at the time of supply, it is deductible from the value in terms of section 15(3)(a)]	1,000
<b>Value of taxable supply</b>	<b>57,000</b>

#### Concept Problem 2

Samriddhi Advertisers conceptualized and designed the advertising campaign for a new product launched by New Moon Pvt Ltd. for a consideration of INR 5,00,000. Samriddhi Advertisers owed INR 20,000 to one of its vendors in relation to the advertising service provided by it to New Moon Pvt Ltd. Such liability of Samriddhi Advertisers was discharged by New Moon Pvt Ltd. New Moon Pvt Ltd. delayed the payment of consideration and thus, paid INR 15,000 as interest.

Determine the value of taxable supply made by Samriddhi Advertisers.

*This Question Bank is meant for Nov 2022 exams and must be read with our Lectures (Regular or Fast Track) as many additional concepts are covered in class. We do lots of written practice in class & Kishan Sir personally evaluates grand Mock Test. Must cover GST Chalisa Handwritten Notes as well.*

**Solution****Computation of value of taxable supply**

Particulars	Amount
Service charges	5,00,000
Payment made by New Moon Pvt. Ltd to vendor of Samriddhi Advertisers [Liability of the supplier being discharged by the recipient, is includible in the value in terms of section 15(2)(b)]	20,000
Interest for delay in payment of consideration [Includible in the value in terms of section 15(2)(d)]	12,712
<b>Value of taxable supply</b>	<b>5,35,000</b>

**Note:** The interest for delay in payment of consideration will be included in the value of supply but the time of supply of such interest will be the date when such interest is received in terms of section 13(6). Such interest will be taken to be inclusive of GST and value will be computed by making back calculation [ $\text{interest}/(100+\text{GST}) \times 100$ ]

**Concept Problem 3**

Are post-supply discounts eligible for deduction from the value of supplies in all situations? Explain.

**Solution**

No, the post-supply discounts are not eligible for deduction from the value of supplies in all situations. Such discounts are allowed as a deduction from the value of supply only in the situations where the following two conditions are satisfied:

- (i) The discount is in terms of an agreement that existed at time of supply and can be worked out invoice-wise; and
- (ii) Proportionate ITC is reversed by the recipient - The buyer would have availed ITC of GST payable on the gross value specified in the invoice. Thus, when a credit note is issued to him by the supplier for the discount, the buyer will reverse the proportionate credit; consequent to which, the supplier's output tax liability will be reduced by the same amount.

If any of the above conditions are not satisfied, post-supply discount is not allowed as a deduction from the value of supply and consequently, GST liability of the supplier does not get reduced.

**Concept Problem 4**

'Consideration under GST law includes both monetary and non-monetary considerations.'

Discuss the correctness or otherwise of the statement as per definition of term 'consideration' under the CGST Act.

**Solution**

The statement is correct. As per the definition of term 'consideration' provided under the CGST Act, consideration under the GST law includes both payment in money or otherwise made by the recipient or any other person and also takes within its sweep the monetary value of any act or forbearance for the supply by the recipient or any other person. Further, it includes within its ambit any deposit which is applied as a consideration for the supply but excludes the subsidies provided by the State or Central Government.

The term money has also been defined under the CGST Act and it not only includes cash (Indian as well as foreign currency) but also cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveler's cheque, money order, postal/electronic remittance or any such similar instrument recognized by RBI. Non-monetary consideration essentially means consideration in kind.

**Concept Problem 5**

Sharp Minds Institute provides coaching for engineering entrance examinations. Monthly fee charged by the Institute from a student is INR 10,000. The Institute is known for its commitment to provide education to underprivileged children. It trains 10 students every year for entrance examinations free of cost.

The Institute has received ₹ 3,00,000 as coaching fees during a month. Nav Jeevan, an NGO working in the area of education for underprivileged children, has given a subsidy of ₹ 10,000 (in lumpsum) during the month to the Institute as it is serving the cause of underprivileged children.

Determine the value of supply of education services made by Sharp Minds Institute during the month.

### Solution

As per section 15(2)(e), the value of a supply includes subsidies directly linked to the price, excluding subsidies provided by the State Governments and the Central Government.

In the given case, though the subsidy is given by a non-Government body, the same is not includible in the value as it is given in lumpsum and not directly linked to the price of the supply being valued. Therefore, the value of supply made by Sharp Minds during the month is ₹ 3,00,000.

### Concept Problem 6

Furniture Wala is a chain of retail showrooms selling both modern and classic furniture. In order to build strong customer association, the showroom provides free delivery of the furniture at the premises of the customers if the distance between the showroom and the customer's premises is upto 20 kms. Where the distance is more than 20 kms, the showroom charges a concessional freight of ₹ 10 for every additional km.

Ms. Leena Kapoor purchases a double bed, a dressing table and a centre table for ₹ 2,00,000 from Furniture Wala. Ms. Leena gets free delivery of the furniture as her residence is located at a distance of 18 km from the showroom. The showroom incurs an expenditure of ₹ 1000 for delivering the furniture at Ms. Leena's residence.

Determine the value of taxable supply made by Furniture Wala. Will your Solution change if residence of Ms. Leena is 50 km away from the showroom?

### Solution

In the given case, the showroom is not charging any amount towards freight from Ms. Leena but incurring the same out of its own pocket. Therefore, the same should not be added to the value. Hence, the value of supply will be ₹ 2,00,000.

However, the Solution will change in the second case when the showroom will charge ₹ 300 for freight [(50km – 20 km) x ₹ 10] from Ms. Leena. In this case, the supply will be a composite supply (principal supply being the supply of furniture) and value thereof will be ₹ 2,00,300.

### Concept Problem 7

AKJ Foods Pvt. Ltd. gets an order for supply of processed food from a customer. The customer wants the consignment tested for gluten or specified chemical residues. AKJ Foods Pvt. Ltd. does the testing and charges a testing fee for the same from the customer. AKJ Foods Pvt. Ltd. argues that such testing fees should not form part of the consideration for the sale as it is a separate activity.

Is his argument correct in the light of section 15?

### Solution

As per section 15 of CGST Act, certain elements are added to transaction value to arrive at taxable value. Accordingly, any amount charged for anything done by the supplier in respect of the supply at the time of or before delivery of goods or supply of services shall be included in taxable value.

Since AKJ Foods Pvt. Ltd. does the testing before the delivery of goods, such charges will be included in the taxable value. Therefore, AKJ foods Pvt. Ltd. arguments is not correct. The testing fee should be added to the price to arrive at taxable value of the consignment.

### Concept Problem 8

A philanthropic association makes a substantial donation each year to a reputed private management institution to subsidize the education of low-income group students who have gained admission there. The fee for these individuals is reduced thereby coming to ₹ 3 lakh a year compared to ₹ 5 lakh a year for other students.

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What would be the value of the service of coaching and instruction provided by the institution to the low-income group students?

### Solution

As per section 15(2)(e), the value of a supply includes subsidies directly linked to the price, excluding State Government and Central Government subsidies. In this case, the subsidy is not received from the Government but from a philanthropic association. Therefore, the subsidy is to be added back to the price to arrive at the value, which comes to ₹ 5 lakh a year.

### Concept Problem 9

Mezda Banners, an advertising firm, gives an interest-free credit period of 30 days for payment by the customer. Its customer ABC Limited paid for the supply 32 days after the supply of service. Mezda Banners waived the interest payable for delay of two days.

Department wants to add interest for two days as per contract. Should notional interest be added to taxable value?

### Solution

This is a supply that is valued as per transaction value under section 15(1) as the price is the sole consideration for the supply and the supply is made to unrelated person. The value of a supply includes certain elements like interest which are actually payable. Once waived, the interest is not payable and is therefore, not to be added to the value.

### Concept Problem 10

Crunch Bakery Products Ltd sells biscuits and cakes through its dealers, to whom it charges the list price minus standard discount and pays GST accordingly. When goods remain unsold with the dealers, it offers additional discounts on the stock as an incentive to push the sales.

Can this additional discount be reduced from the price at which the goods were sold and concomitant tax adjustments made?

### Solution

The discounts were not known or agreed for at the time of supply of goods to the dealers. Therefore, in terms of section 15(3), such discounts cannot be reduced from the price on which tax had been paid.

### Concept Problem 11

Red Pepper Ltd., Delhi, a registered supplier, is manufacturing taxable goods. It provides the following details of taxable inter-State supply made by it for the month of March, 20XX.

S No.	Particulars	Amount
1	List price of goods supplied inter-state (exclusive of taxes)	15,00,000
2	Subsidy received from Central Government for supply of taxable goods to Govt. School	2,10,000
3	Subsidy received from a NGO for supply of taxable goods to an old age home	50,000
4	Tax levied by Municipal Authority	20,000
5	Packing charges	15,000
6	Late fee paid by the recipient of supply for delayed payment of invoice	6,000

The list price of the goods takes into account the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price. Calculate the value of taxable supply made by M/s Red Pepper Ltd. for the month of March, 20XX. Rate of IGST is 18%.

### Solution

#### Computation of value of taxable supply made by Red Pepper Ltd. for the month of March, 20XX

Particulars	Amount
List price of the goods	15,00,000
Add: Subsidy amounting to INR 2,10,000 received from Central Government [Since subsidy is received from Government, same is not includible in value as per section 15]	NIL
Subsidy received from NGO [Since subsidy is received from a non-Government body, same is includible as per section 15]	50,000
Tax levied by the Municipal Authority [Includible in the value as per section 15]	20,000
Packing charges [Being incidental expenses, the same are includible in the value as per section 15]	15,000
Late fees paid by recipient of supply for delayed payment [Includible in the value as per section 15] (assumed to be inclusive of taxes) [INR 6,000 x 100/118] rounded off	5,085
<b>Value of taxable supply</b>	<b>15,90,085</b>

### Concept Problem 12

M/s. Flow Pro, a registered supplier, sold a machine to BP Ltd. It provides the following information in this regard:-

S No.	Particulars	Amount
1	Price of the machine [excluding taxes and other charges mentioned at S. Nos. (ii) & (iii)]	25,000
2	Third party inspection charges [Such charges were payable by M/s Flow Pro but the same have been directly paid by BP Ltd. to the inspection agency. These charges were not recorded in the invoice issued by M/s Flo Pro.]	5,000
3	Freight charges for delivery of the machine [M/s Flow Pro has agreed to deliver the goods at BP Ltd.'s premises]	2,000
4	Subsidy received from the State Government on sale of machine [Subsidy is directly linked to the price]	5,000
5	Discount of 2% is offered to BP Ltd. on the price mentioned at S. No. (i) above and recorded in the invoice	

**Note:** Price of the machine is net of the subsidy received.

Determine the value of taxable supply made by M/s Flow Pro to BP Ltd.

### Solution

Computation of value of taxable supply made by M/s. Flo Pro to BP Ltd.

Particulars	Amount
Price of the machine [Since the subsidy is received from the State Government, the same is not includible in the value of supply in terms of section 15(2)(e)]	25,000
Third party inspection charges [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	5,000
Freight charges for delivery of the machine [Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.]	2,000

Particulars	Amount
<b>Total</b>	<b>32,000</b>
Less: Discount @ 2% on ₹ 25,000 being price charged to BP Ltd. [Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply in terms of section 15(3)(a)]	500
<b>Value of taxable supply</b>	<b>31,500</b>

**Concept Problem 13**

Shri Krishna Pvt. Ltd., a registered supplier, furnishes the following information relating to goods sold by it to Shri Balram Pvt. Ltd.-

S No.	Particulars	Amount
1	Price of the goods [excluding taxes and other charges mentioned at S. Nos. (iii), (v) & (vi)]	1,00,000
2	Municipal tax	2,000
3	Inspection charges	15,000
4	Subsidy received from Shri Ram Trust [Subsidy is directly linked to the goods supplied]	50,000
5	Late fees for delayed payment inclusive of GST [Shri Balram Pvt. Ltd. paid the late fees. However, these charges were ultimately waived by Shri Krishna Pvt. Ltd. and the amount was refunded to Shri Balram Pvt. Ltd. during the same month]	1,000
6.	Weighment charges [Such charges were paid by Shri Balram Pvt. Ltd. to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd.]	2,000

Note: Price of the goods is net of the subsidy received.

Determine the value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

**Solution**

Computation of value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

Particulars	Amount
Price of the goods	1,00,000
Municipal tax [Includible in the value as per section 15(2)(a)]	2,000
Inspection charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value as per section 15(2)(c)]	15,000
Subsidy received from Shri Ram Trust [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e)]	50,000
Late fees for delayed payment [Not includible since the same is waived off]	Nil
Weighment charges paid to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd. [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b)]	2,000

<b>Value of taxable supply</b>	1,69,000
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**Concept Problem 14**

Koli Ltd., a registered supplier, has supplied machinery to Ghisa Ltd. (a supplier registered in the same State). It provides following particulars regarding the same:

S No.	Particulars	Amount
1	Price of machinery (exclusive of taxes and discounts)	5,50,000
2	Part fitted in the machinery at the premises of Ghisa Ltd. [Amount has been paid by Ghisa Ltd. directly to the supplier. However, it was Koli Ltd.'s liability to pay the said amount. The said amount has not been recorded in the invoice issued by Koli Ltd.]	20,000
3	Installation and testing charges for machinery, not included in price	25,000
4	Discount @ 2% on price of machinery mentioned at S. No. (i) above (recorded in invoice)	
5	Koli Ltd. provides additional discount @ 1% at year end, based on additional purchase of other machinery for which adjustment is made at the end of the financial year without any change in individual transactions.	

**Determine the value of taxable supply made by Koli Ltd. to Ghisa Ltd.**

**Solution**

Computation of value of taxable supply made by Koli Ltd. to Ghisa Ltd.

Particulars	Amount
Price of machinery (exclusive of taxes and discounts)	5,50,000
Amount paid by Ghisa Ltd. directly to the supplier for the part fitted in the machinery [Any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods is includible in the value of supply in terms of section 15(2)(b).]	20,000
Installation and testing charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value of supply in terms of section 15(2)(c).]	25,000
Less: Discount @ 2% on the price of machinery [₹ 5,50,000 x 2%] [Since discount is given at the time of supply of machinery and recorded in the invoice, the same is deductible from the value of the supply in terms of section 15(3)(a).]	11,000
Less: Additional 1% discount at year end [Though the additional discount is established before/at the time of supply, it is not deductible from the value of supply in terms of section 15(3)(b) as the same is not linked to any specific transaction and is adjusted by the parties at the end of the financial year.]	Nil
<b>Value of taxable supply</b>	<b>5,84,000</b>

**2. ICAI RTPs, MTPs AND PAST YEAR QUESTIONS****Concept Problem 15**

Singhal Brothers, registered in Uttarakhand has supplied 30 tons of a chemical @ INR 50,000 per ton (excluding taxes) to P of Uttarakhand on 8<sup>th</sup> September, 20XX. The invoice for the supply has also been issued on the same date. Further, following additional amounts were also charged from P:

Particulars	Amount
Freight	1,80,000
Packing charges	1,10,000
Weighing charges	20,000
Cost of instrument specially purchased by Singhal Brothers to manufacture the chemical	3,10,000

As per the terms of the contract of supply, Singhal Brothers is required to get the chemical inspected by an independent testing agency before the delivery of the same to P. P has paid such inspection charges amounting to INR 12,000 directly to the testing agency. Singhal Brothers has also received INR 50,00,000 as a subsidy from State Government for setting up chemical manufacturing plant in Uttarakhand.

P is required to make payment within 15 days of supply in terms of the contract. However, P delayed the payment of consideration and made payment in November, 20XX and thus paid INR 15,000 as interest. You are required to calculate the GST liability in this case and due date of deposit. Assume the rate of GST to be 18%.

**Note:** Singhal Brothers and P are not related and price is the sole consideration for the supply.

### Solution

#### Computation of GST liability of Singhal Brother

Particulars	Amount
Price of chemicals (INR 50,000 x 30 tons) [Note-1]	15,00,000
Freight [Note-2]	1,80,000
Packing charges [Note-3]	1,10,000
Weighing charges [Note-3]	20,000
Cost of special instrument [Note-4]	3,10,000
Inspection charges [Note-5]	12,000
Government subsidy [Note-6]	-
Interest for late payment [Note 7] (INR 15,000 x 100/118)	12,712
<b>Value of taxable supply</b>	<b>21,44,712</b>
<b>Tax liability for the month of September 20XX</b>	
Value of taxable supply for the month of September 20XX (21,44,712 - 12,712) [Note-8]	21,32,000
CGST @ 9%	1,91,880
SGST @ 9%	1,91,880
<b>Tax liability for the month of November 20XX</b>	
Interest for late consideration [Note-9]	12,712
CGST payable @ 9%	1,144
SGST payable @ 9%	1,144

#### Due date of deposit of GST

Particulars	Time of Supply	Due date of deposit [Note-11]
GST liability of INR 3,83,760 for the taxable supply made by Singhal Brothers [Note-10]	September 8, 20XX	October 20, 20XX
Interest amounting to INR 2,288 [Note-9]	November, 20XX	December 20, 20XX



**Notes:**

- i. As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e., the price actually paid or payable for the said supply when the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply
- ii. The given supply is a composite supply involving supply of goods (chemical) **and** services (freight) where the principal supply is the supply of goods.  
As per section 8(a), a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly. Thus, tax rate applicable to the goods (chemical) has been considered.
- iii. All incidental expenses including packing charged by the supplier to the recipient of a supply are includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017.
- iv. Any amount charged for anything done by the supplier in respect of the supply of goods at the time of, or before delivery of goods is includible in the value of supply in terms of section 15(2)(c) of CGST Act, 2017.
- v. Any amount that the supplier is liable to pay in relation to supply but incurred by the recipient of supply and not included in the price actually paid for the goods is includible in value of supply as per section 15(2)(b).
- vi. Subsidies not directly linked to the price and provided by the Central Government and State Governments are not includible in the value of supply in terms of section 15(2)(e) of the CGST Act, 2017.
- vii. Interest for the delayed payment of any consideration for any supply is includible in the value of supply in terms of section 15(2)(d) of the CGST Act, 2017.  
The interest has to be considered as cum tax value and tax payable thereon has to be computed by making back calculations in terms of rule 35 of CGST Rules, 2017.
- viii. The tax liability for the month of September, 20XX will not include the tax payable on the amount of interest as the tax liability for delayed payment of interest arises on the date of receipt of interest as per section 12(6).
- ix. As per section 12(6), the time of supply in case of addition in value by way of interest for delayed payment of consideration for goods is the date on which the supplier receives such addition in value. Thus, the time of supply of interest received on account of delayed payment of consideration is the date of receipt of interest.
- x. As per Notification No. 66/2017 CT, Time of supply of goods under forward charge shall be as specified in section 12(2)(a) i.e., date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31. Thus, in the present case, the time of supply would be date of issue of invoice i.e. September 8, 20XX
- xi. As per section 39(1) of CGST Act, 2017 every person registered under regular scheme of payment of tax has to furnish the prescribed return on or before 20<sup>th</sup> of the succeeding month. Further, section 39(7) provides that every regular registered person is liable to pay tax due to the Government by the last date on which he is required to furnish such return. Thus, GST is liable to be paid on or before 20<sup>th</sup> of the succeeding month.

**Concept Problem 16**

Bharat Gas sells cooking gas cylinders. Subsidy directly transferred to the account of the customer. Selling price per cylinder is ₹ 800. Customers received subsidy of ₹ 200 directly from Government to his bank account. Net outflow of the buyer is ₹ 600. Find the value of supply of goods (per cylinder) in the hands of Bharat Gas.

**Solution**

Since, the amount of subsidy is directly credited to the account holder and not received by the Bharat Gas making the supply, therefore, such subsidy will not be considered as part of transaction value as it is not received by the Bharat Gas in making the supply. Hence, transaction value is ₹ 800 per cylinder.

**Concept Problem 17**

R Ltd., a manufacturer of readymade garments, appointed certain dealers for selling its goods. He entered into an agreement to allow 3% discount by way of credit note if a dealer purchases goods for more than INR 40,00,000 in a

period of 3 months from the date of first supply. One dealer, G, exceeded the target and purchased goods for INR 50,00,000 during the period of 3 months. GST was charged separately @ 12% on such supplies.

Determine the value of supply of readymade garments.

### Solution

As per section 15(3), discount is excluded from the value of supply only in the following two cases:

- Discount is duly recorded in the invoice either before or at the time of supply.
- Discount is provided after supply of goods and/or services as per terms of an agreement that existed at time of supply and can be linked to the supply and proportionate input tax credit is reversed by the recipient.

In this case, the aforesaid discount which was not known either before or at the time of supply of relevant goods shall not be deducted from the value of supply made by R Ltd in the invoice.

However, since discount of INR 1,50,000 (50,00,000 x 3%) is provided by R, the supplier, under an agreement entered into by R at the time of supply of goods, such discount shall not form value of supply provided ITC attributable to the discount i.e., amounting to INR 18,000 (1,50,000 x 12%) has been reversed by G, the recipient.

Accordingly, value of supply shall be 48,50,000.

### Concept Problem 18

M/s Nambiar & Co., an Audit firm based in Cochin undertake an audit assignment of his client based in Chennai. The Contract mentioned about the audit fees of ₹ 5,00,000 and arrangement of taxi by the Client which may be worth ₹ 15,000. Find the transaction value on which M/s Nambiar and Co., is liable to pay GST.

### Solution

Transaction value in the hands of M/s Nambiar & Co., is INR 5,15,000.

**Note:** Not only audit fees but also the expenditure incurred in connection with the taxi ₹ 15,000 constitute the sole consideration.

### Concept Problem 19 [RTP May 2019]

Kamal Book Depot, a wholesaler of stationery items, registered in Mumbai, has received order for supply of stationery items worth INR 2,00,000/- on 12<sup>th</sup> November, 20XX from another local registered dealer, Mr. Mehta, Mumbai. Kamal Book Depot charged the following additional expenses from Mr. Mehta:

S No.	Particulars	Amount (INR)
(i)	Packing charges	5,000
(ii)	Freight & Cartage	2,000
(iii)	Transit insurance	1,500
(iv)	Extra designing charges	6,000
(v)	Taxes by Municipal Authority	500

The goods were delivered to Mr. Mehta on 14<sup>th</sup> November, 20XX. Since Mr. Mehta was satisfied with the quality of the goods, he made the payment of goods the same day and simultaneously placed another order on Kamal Book Depot of stationery items amounting to INR 10,00,000 to be delivered in the month of December, 20XX\*\*. On receipt of second order, Kamal Book Depot allowed a discount of 20,000 on the first order placed by Mr. Mehta.

Compute GST liability of Kamal Book Depot for month of Nov, 20XX assuming rates of CGST & SGST is 9% each.

Would your Solution be different if expenses (i) to (v) given in above table are already included in price of 2,00,000?

### Note:

- All the amounts given above are exclusive of GST.

(ii) Kamal Book Depot and Mr. Mehta are not related persons and price is the sole consideration of the supply.

\*\*Payment and invoice for the second order will also be made in the month of December, 20XX only.

### Solution

#### Computation of value of taxable supply and tax liability

S No.	Particulars	Amount (INR)
(i)	Price of the goods [Note-1]	2,00,000
(ii)	Packing charges [Note-2]	5,000
(iii)	Freight & Cartage [Note-3]	2,000
(iv)	Transit Insurance [Note-3]	1,500
(v)	Extra Designing charges [Note-4]	6,000
(v)	Taxes by Municipal Authority [Note-5]	500
	<b>Value of taxable supply</b>	<b>2,15,000</b>
	<b>CGST @ 9%</b>	<b>19,350</b>
	<b>SGST @ 9%</b>	<b>19,350</b>

#### Notes:

- As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e., the price actually paid or payable for the said supply.
- All incidental expenses including packing charged by the supplier to the recipient are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
- The given supply is a composite supply involving supply of goods (stationery items) and services (transit insurance and freight) where the principal supply is the supply of goods.

As per section 8(a) of the CGST Act, 2017, a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly.

- Any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services; is includible in the value of supply vide section 15(2) of the CGST Act, 2017. Thus, extra designing charges are to be included in the value of supply.
- The taxes by Municipal Authorities are includible in the value of supply in terms of section 15(2).
- In the given case, Mr. Mehta is allowed a discount of INR 20,000 on the goods supplied to him in the month of November, 20XX. Since the said goods have already been delivered by Kamal Book Depot, this discount will be a post-supply discount.

Further, value of supply shall not include any discount which is given after the supply has been effected, if—

- such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and
- input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply [Section 15(3) of the CGST Act, 2017].

However, in the given case, post-supply discount given to Mr. Mehta will not be allowed as a deduction from the value of supply since the discount policy was not known before the time of such supply although the discount can be specifically linked to relevant invoice (invoice pertaining to stationery items supplied to Mr. Mehta in November, 20XX).

**In case the expenses (i) to (v) given in above table are already included in the price of INR 2,00,000:** Since these expenses are includible in the value of supply by virtue of the reasons mentioned in explanatory notes

above, no further addition will be required. Resultantly, the value of taxable supply will be INR 2,00,000 and CGST and SGST will be INR 18,000 and INR 18,000 respectively.

### Concept Problem 20 [ICAI Nov 2020]

Following are the particulars, relating to one of the machine sold by SQM Ltd. to ACD Ltd. in the month of February 20XX at list price of 9,50,000(exclusive of taxes and discount) Further, following additional amounts have been charged from ACD Ltd:

S.No.	Particulars	Amount
i.	Municipal taxes chargeable on the machine	45,000
ii.	Outward freight charges (Contract was to deliver machine at ACD Ltd.'s factory i.e. F.O.R. contract)	65,000

Additional information :

- SQM Ltd. normally gives an interest-free credit period of 30 days for payment, after that it charges interest @ 1% p.m. or part thereof on list price. ACD Ltd. paid for the supply after 45 days, but SQM Ltd. waived the interest payable.
- SQM Ltd. received 50,000 as subsidy, from one non-government organization (NGO) on sale of such machine. This subsidy was not linked to the price of machine and also not considered in list price of 9,50,000.
- ACD Ltd. deducted discount of 15,000 at the time of final payment, which was not as per agreement
- SQM Ltd. collected 9,500 as TCS (tax collected at source) under the provisions of the Income Tax Act, 1961.

Compute the value of taxable supply as per the provision of GST laws, considering that the price is the sole consideration for the supply and both parties are unrelated to each other.

Note: Correct legal provision should form part of your answer.

### Solution

#### Computation of value of taxable supply

S.No.	Particulars	Amount
	List price (exclusive of taxes and discount)	9,50,000
i.	Municipal taxes [Note-1]	45,000
ii.	Outward freight charges [Note-2]	65,000
	<b>Value of taxable supply</b>	<b>10,60,000</b>

#### Notes:

- Tax other than GST, if charged separately, are includible in the value in terms of section 15.
- Since contract is to deliver machine at buyer's factory, it is a composite supply wherein the freight charges will be added to the value of principal supply of machine.
- Value of supply includes interest charged for delayed payment. However, since the interest on delayed payment has been waived off, the same has not been added to the value.
- Subsidy provided by non-Government bodies is includible in the value in terms of section 15 provided the same is directly linked to the price. Since subsidy received from NGO is not directly linked to the price of the machine, the same has not been added to the value.
- Since the discount was not known or agreed to at the time of supply of goods to the buyers, such discount cannot be reduced from the price, in terms of section 15.
- TCS is not includible in the value of supply as it is an interim levy not having the character of tax.