

INTERMEDIATE COURSE

GROUP – I

REVISION TEST PAPERS

SEPTEMBER, 2025



BOARD OF STUDIES (ACADEMIC)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

New Delhi

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Contents

	Page Nos.
Objective & Approach	<i>i – vii</i>
Objective of RTP.....	<i>i</i>
Planning & Preparing for Examination.....	<i>ii</i>
Subject-wise Applicability.....	<i>iii</i>
Paper-wise RTPs	
Paper 1: Advanced Accounting	1 – 38
<i>Part I: Announcements Stating Applicability for September 2025 Examination..</i>	<i>1 – 10</i>
<i>Part II: Questions and Answers.....</i>	<i>11 – 38</i>
Paper 2: Corporate and Other Laws	39 – 60
<i>Part I: Amendments for September 2025 Examination</i>	<i>39 – 40</i>
<i>Part II: Questions and Answers.....</i>	<i>41 – 60</i>
Paper 3: Taxation.....	61 – 98
Section A: Income-tax Law.....	61 – 83
Section B: Goods and Services Tax	84 – 98
Applicability of Standards/Guidance Notes/Legislative Amendments etc. for September, 2025 – Intermediate Examination	99 – 102

REVISION TEST PAPER, SEPTEMBER, 2025–OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I. Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (Academic) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS (A) whose significance and relevance from the examination perspective has stood the test of time.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To update them on the latest developments relevant for the forthcoming examination in select subjects;
- To enhance the confidence level of the students adequately.

Students must bear in mind that the RTP contains a variety of questions based on different topics of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials and Statutory Update, wherever applicable.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Live Virtual Classes by renowned subject experts conducted free of charge for the students of Foundation, Intermediate and Final levels provide the students much required support in preparing for their exams conveniently at home as these classes can be accessed live or viewed later as recorded lectures through hand-held devices such as smart phones, laptops, I-pads, tablets, etc. anytime anywhere. Further,

students are advised to attempt the Multiple-Choice Questions (MCQs) at MCQ Paper Practice Portal which is a holistic platform for self-assessment within the stipulated timeframe.

Students are welcome to send their suggestions for fine tuning the RTP to the Joint Director, Board of Studies (Academic), The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201309 (Uttar Pradesh). RTP is also available on BOS Knowledge Portal at <https://boslive.icai.org> for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects (along with the Statutory Update in case of Paper 3A and Paper 3B) available at the BoS Knowledge Portal. Get a good grasp of the concepts/ provisions/ amendments/ cases discussed therein.

After reading the Study Materials alongwith Statutory Update thoroughly, then, proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question.

- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time. Keep sometime for checking the answers as well.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.
- In case of case scenario based MCQs, read the facts given in the case attentively. Also, read each MCQ based thereon and all the options carefully, before choosing the correct answer.

III. Subject-wise Applicability

PAPER – 1 : ADVANCED ACCOUNTING

The July, 2024 edition of the Study Material, comprising of three modules, is applicable for the students appearing for September, 2025 Examination. For understanding the coverage of syllabus, it is important to read the Study Material carefully.

You must read the study material thoroughly to attain conceptual clarity. The tables, diagrams and flow charts in study material have been extensively prepared to facilitate easy understanding of concepts. Likewise, examples and illustrations given in the Study Material would enable you to grasp the application of theoretical concepts in real-world scenarios. After covering the concepts and illustrations, work out the

exercise questions at the end of each chapter and then compare your answers with the answers given to test your level of understanding. Also, solve the MCQs and case scenario based MCQs uploaded in MCQ Practice Dashboard. This will help you to maximize your speed and accuracy in solving independent MCQs and case scenario based MCQs in the Examination.

The RTP consists of twenty questions together with their answers on different topics discussed in the study material. Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. Moreover, the answers have been presented in the same manner as expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the RTP. This will facilitate them to further strategize their preparation for scoring good marks in the examination.

PAPER – 2: CORPORATE AND OTHER LAWS

The July 2024 edition of the Study Material is applicable for Intermediate Course Paper 2: Corporate and Other Laws. The Study Material has been divided into three modules (Modules 1, 2 & 3) for ease of handling by students.

The Study Material is based on the provisions of the Companies Act, 2013, the Limited Liability Partnership Act, 2008, the General Clauses Act, 1897 and the Foreign Exchange Management Act, 1999, as amended upto 30th June, 2024.

The amendments in the Companies Act, 2013 for the period 1st July, 2024 to 28th February, 2025 are given under the Part I of the RTP. These amendments have been uploaded on the website at <https://resource.cdn.icai.org/86582bos-aps1156-amendments-sep2025-exam.pdf>.

The students are advised to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help the students to

understand the application of concepts. Work out the exercise questions at the end of each chapter and then compare your answers with the answers given to test your level of understanding. Thereafter, solve the MCQs and case scenarios based MCQs uploaded in MCQ Paper Practice Dashboard and given in the Case scenarios booklet and assess your level of understanding.

Finally, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

PAPER – 3: TAXATION

Section A: Income-tax Law (50 Marks)

The Income-tax law, as amended by the Finance (No. 2) Act, 2024 and significant notifications, circulars and other legislative amendments upto 28.02.2025 are relevant for September, 2025 Examination. The relevant assessment year for September, 2025 examination is A.Y. 2025-26.

The October, 2024 edition of the Study Material, comprising of two modules (Modules 1 & 2), is based on the provisions of income-tax law, as amended by the Finance (No. 2) Act, 2024 and significant notifications and circulars issued upto 30.09.2024. Hence, the same is applicable for September, 2025 Examination. Further, a list of topic-wise exclusions from the syllabus and inclusions with reference to section 10 in the syllabus has been specified by way of “**Study Guidelines**” and the same has been webhosted at <https://resource.cdn.icai.org/84185bos67885.pdf> at BoS Knowledge Portal.

Since there is no significant notifications/circulars issued between 1.10.2024 and 28.02.2025, Statutory Update is not issued for September, 2025 Examination.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments made by the Finance (No. 2) Act, 2024 and latest notifications and circulars have been given in *italics/bold italics*. Examples and Illustrations given in the Study

Material would help you understand the application of concepts. Work out the exercise questions at the end of each chapter and then compare your answers with the answers given to test your level of understanding. Thereafter, solve the MCQs and case scenarios based MCQs uploaded in MCQ Paper Practice Dashboard and assess your level of understanding.

After that solve the questions given in RTP for May, 2025 examination.

Finally, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

Section B: Goods and Services Tax (50 Marks)

For Section B: Goods and Services Tax of Paper 3: Taxation, the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024, including significant notifications and circulars issued and other legislative amendments made, up to 28th February, 2025, are applicable for September, 2025 examination.

The amendments made by the Annual Union Finance Acts in the CGST Act, 2017 and IGST Act, 2017 are made effective from the date notified subsequently. Thus, only those amendments made by the relevant Finance Acts which have become effective till 28.02.2025 are applicable for September 2025 examination. Accordingly, all the amendments made by the Finance (No. 2) Act, 2024 are applicable for September 2025 examination since they have become effective till 28.02.2025.

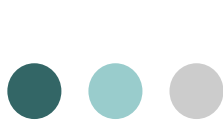
Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines for September, 2025 Examination"**. The same is given as part of **"Applicability of Standards/Guidance Notes/Legislative Amendments etc. for September, 2025 - Intermediate Examination"** appended at the end of this Revision Test Paper.

The October, 2024 edition of the Study Material alongwith the Statutory updates for September, 2025 examination is applicable for Intermediate Course Paper 3: Taxation, Section B: Goods and Services Tax. The Study

Material has been divided into two modules for ease of handling by students.

Study Material is based on the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended upto 31.10.2024. The amendments in the GST law made between 01.11.2024 and 28.02.2025 are covered in the Statutory Updates for September 2025 examination. For the ease of reference, the amendments have been grouped into Chapters which correspond with the Chapters of the Study Material.

You have to read the Study Material alongwith the Statutory Update thoroughly to attain conceptual clarity. You are advised to solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.



PAPER – 1: ADVANCED ACCOUNTING

ANNOUNCEMENTS STATING APPLICABILITY FOR SEPTEMBER 2025 EXAMINATION

I. Revised Criteria for classification of Non-company entities for applicability of Accounting Standards

The Council, at its 433rd meeting, held on August 13-15, 2024, considered the revised criteria for classification of Non-company entities for applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) to Non-company entities (Enterprises) and recommended to revise the same. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.
2. Micro, Small and Medium Sized Entity (MSME) means, a non-company entity:
 - (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
 - (ii) which is not a bank, financial institution or an insurance company;
 - (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
 - (iv) which does not have borrowings in excess of fifty crore

rupees at any time during the immediately preceding accounting year; and

- (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

Explanation.- For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Large entity is a non-company entity that is not an MSME.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

3. Large entities are required to comply in full with all the Accounting Standards.
4. Certain exemptions/relaxations have been provided to Micro, Small and Medium sized Entity (MSMEs). Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 1.
5. This Announcement supersedes the earlier Announcement of the ICAI on 'Criteria for classification of Non-company entities for applicability of Accounting Standards issued in March 2021¹.
6. This Announcement is not relevant for Non-company entities which may be required to follow Indian Accounting Standards (Ind

¹ The said announcement was hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 and it superseded the earlier announcement of the ICAI on 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government' issued in February 2008, to the extent it prescribed the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, and the Announcement 'Revision in the criteria for classifying Level II non-corporate entities' issued in January 2013.

AS) or Accounting Standards (AS) as per relevant regulatory requirements applicable to such entities.

7. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

Additional requirements

- (1) An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME and has complied with the Accounting Standards insofar as they are applicable to an MSME.
- (2) Where an MSME had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an MSME. The fact that it was an MSME in the previous period and it had availed of the exemptions or relaxations available to it shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.
- (3) An entity which was previously not an MSME and subsequently becomes an MSME, shall not be qualified for exemption/relaxation in respect of Accounting Standards available to an MSME until the entity remains an MSME for two consecutive years.
- (4) If an MSME opts not to avail of the exemptions or relaxations available to an MSME in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.
- (5) If an MSME opts not to avail any one or more of the exemptions or relaxations available to it, it shall comply with the relevant requirements of the Accounting Standard.

- (6) An MSME may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead users of financial statements.

Annexure 1

Applicability of Accounting Standards to Non-company Entities The Accounting Standards issued by the ICAI, as on April 1, 2024, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2024, are:

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits
AS 16	Borrowing Costs
AS 17	Segment Reporting

AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets

(1) Applicability of the Accounting Standards to Large Non-company entities.

Large entities are required to comply in full with all the Accounting Standards.

(2) Applicability of the Accounting Standards and exemptions/relaxations for Micro, Small and Medium sized Non-company entities

- (A) Accounting Standards not applicable to Micro, Small and Medium sized entity (MSME) in their entirety
- (i) Accounting Standards not applicable to all MSMEs in their entirety:
- AS 3, Cash Flow Statements
 - AS 17, Segment Reporting
 - AS 20, Earnings per Share
 - AS 24, Discontinuing Operations

- (ii) AS 18, Related Party Disclosures and AS 28, Impairment of Assets not applicable in their entirety to MSMEs:
 - (a) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
 - (b) which does not have borrowings in excess of rupees ten crore at any time during the immediately preceding accounting year; and
 - (c) which is not a Holding and subsidiary of an MSME not covered above.

(B) Relaxations/exemptions from certain requirements of Accounting Standards to Micro, Small and Medium sized Entities (MSMEs)

- (i) Accounting Standard (AS) 10, Property, Plant and Equipment
MSMEs may not comply with paragraph 87 relating to encouraged disclosures.
- (ii) AS 11, The Effects of Changes in Foreign Exchange Rates
MSMEs may not comply with paragraph 44 relating to encouraged disclosures.
- (iii) AS 15, Employee Benefits
 - (1) MSMEs may not comply with the following paragraphs:
 - (a) paragraphs 11 to 16 of the standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are nonvesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);
 - (b) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date;

- (c) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such entities may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year; and
 - (d) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such entities may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.
- (iv) AS 19, Leases

MSMEs may not comply with paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures.
- (v) AS 22, Accounting for Taxes on Income
 - (a) MSMEs shall comply with the requirements of AS 22, Accounting for Taxes on Income, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.
 - (b) Transitional requirements on the first occasion when an MSME avails this exemption, the accumulated deferred

tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves/owner's funds.

- (vi) AS 26, Intangible Assets MSMEs may not comply with paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures.
- (vii) AS 28, Impairment of Assets (a) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Consequently, if such MSME chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard. (b) MSMEs that are otherwise not exempted from applying this standard [refer note 2(A)(ii)] may not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures.
- (viii) AS 29, Provisions, Contingent Liabilities and Contingent Assets
MSMEs may not comply with paragraphs 66 and 67 relating to disclosures.
- (C) In case of Micro, Small and Medium sized Non-company entities, generally there are no such transactions that are covered under AS 14, Accounting for Amalgamations, or jointly controlled operations or jointly controlled assets covered under AS 27, Financial Reporting of Interests in Joint Ventures. Therefore, these standards are not applicable to Micro, Small and Medium size Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.
- (D) AS 21, Consolidated Financial Statements, AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS

27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

II. Amendments to AS 22, Accounting for Taxes on Income

Paragraphs 2A, 32A–32D (including their related heading and example after paragraph 32D) and 35 are added.

Scope ...

2A This Standard applies to taxes on income arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Cooperation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. Such tax law, and the taxes on income arising from it, are hereafter referred to as 'Pillar Two legislation' and 'Pillar Two income taxes'. As an exception to the requirements in this Standard, an enterprise should neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Presentation and Disclosure

International tax reform—Pillar Two model rules 32A An enterprise should disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes (see paragraph 2A). 32B An enterprise should disclose separately its current tax expense (income) related to Pillar Two income taxes. 32C In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an enterprise should disclose known or reasonably estimable information that helps users of financial statements understand the enterprise's exposure to Pillar Two income taxes arising from that legislation. 32D To meet the disclosure objective in paragraph 32C, an enterprise should disclose qualitative and

quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an enterprise should instead disclose a statement to that effect and disclose information about the enterprise's progress in assessing its exposure.

Examples illustrating paragraphs 32C–32D Examples of information an enterprise could disclose to meet the objective and requirements in paragraphs 32C–32D include: (a) qualitative information such as information about how an enterprise is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist; and (b) quantitative information such as: (i) an indication of the proportion of an enterprise's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or (ii) an indication of how an enterprise's average effective tax rate would have changed if Pillar Two legislation had been in effect.

Provided that a Micro, Small and Medium-sized Enterprise (Levels IV, III and II non-company entities) may not apply the disclosure requirements laid down in paragraphs 32C and 32D. ... Effective date 35 International Tax Reform—Pillar Two Model Rules, added paragraphs 2A and 32A–32D. An enterprise should: (a) apply paragraphs 2A and 32A immediately upon the issue of these amendments and retrospectively; and (b) apply paragraphs 32B–32D for annual reporting periods beginning on or after 1 April 2024. An enterprise is not required to disclose the information required by these paragraphs for any interim period ending on or before 31 March 2025.

PART – II: QUESTIONS AND ANSWERS



QUESTIONS

PART – I: Multiple Choice Questions based on Case Scenarios

1. Surat Ltd. has received a grant of ₹ 40 crore for purchase of a qualified machine costing ₹ 90 crores. The residual value is ₹ 2 crore and expected useful life of the machine is 20 years.

Answer the following question as per the requirements of AS 12, Government Grants assuming that the depreciation method is straight line:

- (a) What is the nature of Grant being received by Surat Ltd.?
- (i) Non-Monetary Government Grant
 - (ii) Grant related to specific fixed assets
 - (iii) Grant related to Revenue
 - (iv) Promoter's Contribution
- (b) If Surat Ltd. has the policy to recognise the grant as deduction from the cost of the asset, what will be the amount of depreciation to be charged as expense in statement of profit and loss account every year:
- (i) ₹ 4.5 crores
 - (ii) ₹ 2.5 crores
 - (iii) ₹ 2.4 crores
 - (iv) ₹ 2 crores
- (c) If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of grant to be recognised as other income in statement of profit and loss account every year:
- (i) ₹ 4.5 crores
 - (ii) ₹ 2.5 crores

- (iii) ₹ 2 crores
 - (iv) ₹ 1 crores
- (d) If Surat Ltd. has the policy to recognise the grant as deferred income, what will be the amount of depreciation to be charged as expense in statement of profit and loss account, every year:
- (i) ₹ 4.5 crores
 - (ii) ₹ 4.4 crores
 - (iii) ₹ 2.5 crores
 - (iv) ₹ 2 crores
2. In the books of G Ltd., closing inventory as at 31.03.2024 amounts to ₹ 10,40,000 (on the basis of FIFO method).
- The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory for 31.3.2024. On the basis of weighted average method, closing inventory as on 31.03.2024 amounts to ₹ 8,80,000. Realisable value of the inventory as on 31.03.2024 amounts to ₹ 12,00,000.
- What will be the value of inventory in the books and what disclosure should be given in the financial statement on 31.3.2024?
- (i) The value of inventory will be ₹ 8,80,000 and the fact that the valuation method has changed to be disclosed in the financial statement.
 - (ii) The value of inventory will be ₹ 12,00,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.
 - (iii) The value of inventory will be ₹ 12,00,000, and the fact that valuation method has changed to be disclosed in the financial statement.
 - (iv) The value of inventory will be ₹ 8,80,000, and full disclosure with the amount the valuation method has changed to be disclosed in the financial statement.

3. Cost of current investment acquired was ₹ 1000 but the fair value was ₹ 800. The Investment was recorded at ₹ 800. Now the fair value of Investment is ₹ 1200. At what value should it be recorded and how much gain will be credited to profit and loss account.
- (i) No change is required and it will continue at ₹ 800
 - (ii) Current investment will be recorded at ₹ 1000 and gain of ₹ 200 will be credited to profit and loss account.
 - (iii) Current investment will be recorded at ₹ 1200 and gain of ₹ 400 will be credited to profit and loss account.
 - (iv) Current investment will be recorded at ₹ 1200 but no gain will be credited to profit and loss account.

Part II - Descriptive Questions

Applicability of Accounting Standards

4. As per the revised scheme effective from accounting periods commencing on or after April 1, 2024, classify non-company entities for the purpose of applicability of Accounting Standards. Briefly explain the criteria for each category.

AS 1 "Disclosure of Accounting Policies"

5. Lion Ltd., engaged in manufacturing and construction contracts, prepares its financial statements for the year ended 31st March 2025. The company follows historical cost for fixed assets, FIFO for inventory valuation, and percentage of completion method for revenue recognition in construction contracts. During the year, the management changes:
- The inventory valuation method from FIFO to Weighted Average due to volatility in raw material prices.
 - The depreciation method from Straight Line Method (SLM) to Written Down Value (WDV) citing better reflection of asset usage.

The company discloses the change in inventory method in notes, but does not disclose the change in depreciation method, stating that it is not material.

Additionally, the company has not disclosed its accounting policy on recognition of government grants, though it has received a significant subsidy this year.

You are required to:

- (a) Identify and explain violations (if any) of AS 1 in the above case.
- (b) Critically evaluate whether "materiality" can be used as a justification for non-disclosure of a change in accounting policy.
- (c) Justify, would the change from FIFO to Weighted Average be treated as a change in accounting estimate or accounting policy under AS 1?

AS 2 "Valuation of Inventories"

6. The following information is available for Zing Ltd. for the year 2024-25:

Raw Material:

Closing Stock	700 units	
Cost price	₹ 35 per unit	
Replacement cost	₹ 20 per unit	
Finished product:	FP 1	FP 2
Production (units)	3,000	1,600
Closing stock (units)	500	300
Material consumed		₹ 3,20,000
Direct labour		₹ 1,60,000
Direct expenses		₹ 78,000

Fixed overhead for the year was ₹ 95,000, which includes godown rent of ₹ 15,000. Godown is used for storing finished products.

Besides 2 main products, 1000 units of a by-product (BY) also emerged in the production process which was sold @ ₹ 12 per unit after incurring an expense of ₹ 2,500. ₹ 4,800 was realized from sale of scrap. The average market price of FP1 is ₹ 160 per unit and FP2 is ₹ 100 per unit.

Calculate the value of closing stock of Zing Ltd. as per AS 2.

AS 3 “Cash Flow Statements”

7. From the following information, prepare cash flow statement of Kiran Ltd. as at 31st March, 2025 by using indirect method:

	2024 ₹	2025 ₹
Liabilities		
Share capital	12,00,000	12,00,000
Profit & Loss A/c	8,50,000	10,00,000
Long Term Loans	10,00,000	10,60,000
Trade payables	<u>3,50,000</u>	<u>4,00,000</u>
	34,00,000	36,60,000
Assets		
Fixed Assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Inventory	6,80,000	7,00,000
Trade receivables	7,20,000	6,60,000
Cash	60,000	70,000
Bills Receivable	<u>40,000</u>	<u>30,000</u>
	34,00,000	36,60,000

Income Statement for the year ended 31st March, 2025

		₹
Sales		40,80,000
Less: Cost of sales		<u>27,20,000</u>
Gross Profit		13,60,000
Less: Operating expenses:		
Administrative expenses	4,60,000	
Depreciation	<u>2,20,000</u>	<u>(6,80,000)</u>
Operating Profit		6,80,000
Add: Non-operating incomes (dividend received)		<u>50,000</u>
		7,30,000
Less: Interest paid		<u>(1,40,000)</u>

Profit before tax	5,90,000
Less: Income-tax	<u>(2,60,000)</u>
Profit after tax	<u>3,30,000</u>

Statement of Retained Earnings

	₹
Opening balance	8,50,000
Add: Profit	<u>3,30,000</u>
	11,80,000
Less: Dividend paid	<u>(1,80,000)</u>
Closing balance	<u>10,00,000</u>

8. Garden Ltd. acquired fixed assets viz. plant and machinery for ₹ 20 lakhs. During the same year it sold its furniture and fixtures for ₹ 5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS 3?

AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies"

9. (a) When can an item qualify to be a prior period item as per AS 5?
- (b) The company finds that the stock sheets of 31.3.2024 did not include two pages containing details of inventory worth ₹ 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd., for the year ended 31st March, 2025 with reference to AS 5.

AS 7 "Construction Contracts"

10. A company took a construction contract for ₹ 100 lakhs in January, 2024. It was found that 80% of the contract was completed at a cost of ₹ 92 lakhs on the closing date i.e. on 31.3.2025. The company estimates further expenditure of ₹ 23 lakhs for completing the contract. The expected loss would be ₹ 15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2025?

AS 9 "Revenue Recognition"

11. Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year 2024-25:

- (i) On 31st December, 2024 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2025.
- (ii) On 10th January, 2025, Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April 2025.
- (iii) On 21st March, 2025 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2025.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2024 -25 in above cases in the context of AS 9.

AS 10 "Property, Plant and Equipment"

12. Precision Tools Ltd. provides the following details related to its fixed assets for the year ended 31st March 2025:

The company purchased a machine for ₹ 12,00,000 on 1st October 2024. The following expenses were also incurred:

Freight and insurance: ₹ 60,000

Erection charges: ₹ 40,000

Testing Cost: Raw materials used ₹ 25,000, Wages ₹10,000, Sale of finished goods from testing production ₹ 8,000.

On 1st December 2024, it replaced the motor of an old machine with a new one costing ₹1,20,000, improving the output capacity by 15%. The old motor had a Cost of ₹50,000 and Accumulated Depreciation of ₹ 35,000.

On 15th March 2025, the company shifted a machine from one factory to another. It incurred the following:

Dismantling cost: ₹12,000

Transport and installation: ₹18,000

Loss due to damage in transit: ₹6,000

You are required to calculate the amount to be capitalized for each of the above cases as per AS 10.

AS 12 "Accounting for Government Grants"

13. Zenith Industries Ltd., a manufacturing company, is expanding its operations and has recently undertaken two major initiatives involving government assistance.

- (i) The company received a sum of ₹ 65 lakhs from the local authority to develop medical facilities for its employees at its newly built township near the factory premises.
- (ii) Additionally, it received ₹ 82 lakhs as a subsidy from the Central Government for establishing a new production unit in a notified backward area. This subsidy has been classified as one in the nature of promoters' contribution, intended to support the long-term development of the enterprise.

You are required to explain how the above transactions should be accounted for in the books of Zenith Industries Ltd. in accordance with Accounting Standard (AS) 12 "Government Grants".

AS 13 "Accounting for Investments"

14. On 1st April 2024, Kesar held 75,000 equity shares of Beta Ltd., recorded at a book value of ₹15 per share (with a nominal value of ₹ 10 each). The following transactions took place during the year:

1. On 20th June 2024, Kesar purchased 15,000 additional shares of Beta Ltd. at ₹16 per share.
2. On 1st August 2024, Beta Ltd. declared a bonus issue of one share for every six shares held.
3. On 31st October 2024, the company announced a rights issue, offering three shares for every seven held at a price of ₹ 15 per share. Shareholders were allowed to fully or partially renounce their rights.

Kesar sold one-third of his rights entitlement to Megha at ₹ 2 per share and subscribed to the remaining rights on 5th November 2024.

You are required to prepare the Investment Account in the books of Kesar for the year ending 31st March 2025.

AS 14 "Accounting for Amalgamations"

15. X Co. Ltd. having share capital of ₹50 lakhs divided into equity shares of ₹10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of ₹10,00,000 and Profit and Loss account Cr. ₹5,00,000. Y Co. Ltd. issued 11 equity shares of ₹10 each for every 10 shares of X Co. Ltd.

How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interest method' of amalgamation.

AS 16 "Borrowing Costs"

16. Is it permissible to capitalise borrowing costs incurred on assets which are necessary for the construction of qualifying assets? A company is in the process of constructing a large manufacturing plant in a backward area. As a part of this project it has also purchased a residential building, which is to be used for housing the workers engaged in the construction of the plant. The purchase cost of the building is met by raising a long term loan. The company intends to dispose off the building once the construction of the manufacturing plant is complete. If the manufacturing plant meets the definition of a qualifying asset, would the borrowing costs incurred on funds borrowed to purchase the residential building be eligible for capitalisation?

AS 17 "Segment Reporting"

17. The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:

(₹ in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

AS 18 “Related Party Disclosures”

18. X Ltd. sold goods to its associate company for the 1st quarter ending 30.6.2024. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

AS 19 “Leases”

19. On 1st April, 2024, Mansi Ltd. sold a plant for ₹ 8,52,800. The carrying amount of the plant on that date was ₹ 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term.

The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at ₹ 1,60,000 payable annually beginning from 31st March, 2025.

The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

20. Following is the trial balance of ABC Limited as on 31.3.2025.

(Figures in ₹ '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (F.Y. 2023-24)	75
Trade receivables	120	Securities premium	40

Inventories (31-3-25)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	<u>30</u>		<u> </u>
	2455		2455

Additional Information:

- (i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.
- (ii) The company revalued the land at ₹ 9,60,000.
- (iii) Equity capital includes shares of ₹ 50,000 issued for consideration other than cash.
- (iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2024. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000.
- (v) Depreciation is to be provided on plant and machinery at 10% on cost.
- (vi) Balance at bank includes ₹ 5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2025 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2025 as per Schedule III. Ignore previous year's figures & taxation.



SUGGESTED ANSWERS/HINTS

Answer to Case Scenario and MCQ

Q. No.		Hints
1.	(a)	(ii)
	(b)	(iii)
	(c)	(iii)
	(d)	(ii)
2.		(iv)
3.		(ii)

Descriptive Answers

4. The revised scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2024, which is as under:
 1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into two categories, viz., Micro, Small and Medium Sized Entities (MSMEs) and Large entities.
 2. Micro, Small and Medium Sized Entity (MSME) means, a non-company entity:
 - (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
 - (ii) which is not a bank, financial institution or an insurance company;
 - (iii) whose turnover (excluding other income) does not exceed two hundred and fifty crore rupees in the immediately preceding accounting year;
 - (iv) which does not have borrowings in excess of fifty crore

rupees at any time during the immediately preceding accounting year; and

- (v) which is not a holding or subsidiary of an entity which is not a micro, small and medium-sized entity.

Explanation.- For the purposes of this clause, a non-company entity shall qualify as a Micro, Small and Medium Sized entity, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Large entity is a non-company entity that is not an MSME.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME', respectively. Further, the terms Level II, Level III and Level IV entities used in Accounting Standards shall be read as 'Micro, Small and Medium Sized Entity' and Level I entity shall be read as a 'Large' entity.

5. As per AS 1 "Disclosure of Accounting Policies", the following requirements are relevant:

- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- Any change in an accounting policy which has a material effect should be disclosed along with the nature and reasons for such change.
- If the effect of such change is not ascertainable wholly or in part, the fact should be indicated.

Application to Lion Ltd.:

- (a) 1. Change in Inventory Valuation Method (FIFO to Weighted Average): This is a change in accounting policy. The company has disclosed the change in the notes to accounts along with justification, which is in line with the disclosure requirements of AS 1, provided the impact of the change is also disclosed or indicated as unascertainable if applicable.

2. **Change in Depreciation Method (SLM to WDV):** As per AS 10 (Revised), a change in the method of depreciation is considered a change in accounting estimate. However, AS 1 also requires disclosure of material items affecting financial statements. Depreciation affects key financial figures such as profit, asset value, and return ratios. Even if the change is classified as an estimate, if it has a material effect, disclosure is warranted. The company's decision not to disclose the change on the grounds of immateriality may not be appropriate unless supported by clear quantitative evidence.
3. **Non-Disclosure of Accounting Policy for Government Grants:** Lion Ltd. has received a significant subsidy during the year but has not disclosed its accounting policy for government grants. As per AS 1, all significant accounting policies, including those for government grants, should be disclosed. Hence, non-disclosure amounts to a violation of AS 1.

(b) Evaluation of "Materiality" as Justification for Non-Disclosure

AS 1 emphasizes that accounting policies that are significant and changes that materially affect the financial statements should be disclosed.

- Materiality is assessed in terms of the potential of an item or change to influence economic decisions of users.
- Change in the method of depreciation affects not only profit and loss but also asset values and tax liabilities. Thus, even if the quantitative impact appears small, its qualitative impact (e.g., on comparability and trend analysis) may be significant.
- Therefore, the company's reliance on "materiality" as a justification for non-disclosure is not valid unless there is concrete evidence showing the impact is indeed immaterial both quantitatively and qualitatively.

(c) Nature of Change from FIFO to Weighted Average

The change from FIFO to Weighted Average should be treated as a change in accounting policy and not a change in accounting estimate under AS 1, and its nature and financial impact should be properly disclosed in the financial statements.

6. As per para 10 of AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials are often measured at net realizable value and this value is deducted from the cost of the main product.

(i) Calculation of net realizable value of by-product, BY

		₹
Selling price of by-product BY	(1,000 units x ₹ 12 per unit)	12,000
Less: Separate processing charges of by-product BY		<u>(2,500)</u>
Net realizable value of by-product BY		<u>9,500</u>

(ii) Calculation of cost of conversion for allocation between joint products FP1 and FP2

	₹	₹
Raw material consumed		3,20,000
Direct labour		1,60,000
Direct expenses		78,000
Fixed overhead (95,000 – 15,000)		<u>80,000</u>
		6,38,000
Less: NRV of by-product BY (See calculation 1)	(9,500)	
Sale value of scrap	<u>(4,800)</u>	<u>(14,300)</u>
Joint cost to be allocated between FP 1 and FP 2		<u>6,23,700</u>

(iii) Determination of “basis for allocation” and allocation of joint cost to FP 1 and FP 2

	FP 1	FP 2
Output in units (a)	3,000	1,600
Sales price per unit (b)	₹ 160	₹ 100
Sales value (a x b)	₹ 4,80,000	₹ 1,60,000
Ratio of allocation	3	1
Joint cost of ₹ 6,23,700 allocated in the ratio of 3:1 (c)	<u>₹ 4,67,775</u>	<u>₹ 1,55,925</u>
Cost per unit [c/a]	₹155.93	₹97.45

(iv) Determination of value of closing inventory of Finished Products FP1 and FP2

	FP 1	FP 2
Closing inventory in units	500	300
Cost per unit	₹ 155.93	₹ 97.45
Value of closing inventory (finished goods)	₹ 77,965	₹ 29,235

Determination of value of closing stock of raw material

	FP 1 ₹	FP 2 ₹
Cost price	155.93	97.45
Sales price	160	100

Since both finished goods FP 1 and FP 2 are sold above cost, raw material will be valued at cost i.e. ₹ 35 per unit (ie) ₹ 24,500 (700 units x ₹ 35)

(i) Total value of closing inventory

(a) Finished products:

FP 1 ₹ 77,965

FP 2	<u>₹ 29,235</u>
	₹ 1,07,200
(b) Raw material	₹ 24,500
	<u>₹ 1,31,700</u>

7. **Cash flow statement of Kiran Ltd.**
for the year ended 31st March 2025

		₹	₹
(i)	Cash flows from operating activities		
	Profit before tax	5,90,000	
	Add: Depreciation (Non-cash expenses)	2,20,000	
	Interest (Non-operating expenses)	<u>1,40,000</u>	
		9,50,000	
	Less: Dividend (Non-operating income)	<u>(50,000)</u>	
	Operating Profit	9,00,000	
	Add: Decrease in Bills Receivable	10,000	
	Decrease in Trade receivables	60,000	
	Increase in Trade payables	<u>50,000</u>	
		10,20,000	
	Less: Increase in inventory	<u>(20,000)</u>	
	Cash flow from operations before tax	10,00,000	
	Less: Tax paid	<u>(2,60,000)</u>	
	<i>Cash flow from operating activities</i>		7,40,000
(ii)	Cash flows from investing activities		
	Purchase of fixed assets	(5,20,000)	
	[20,00,000 + 2,20,000 - 17,00,000]		
	Dividend on investments	<u>50,000</u>	
	<i>Cash used in investing activities</i>		(4,70,000)

(iii)	Cash flows from financing activities		
	Long term loan taken	60,000	
	Interest paid	(1,40,000)	
	Dividend paid	<u>(1,80,000)</u>	
	<i>Cash used in financing activities</i>		<u>(2,60,000)</u>
	Net increase in cash during the year		10,000
	Add: Opening cash balance		<u>60,000</u>
	Closing cash balance		<u>70,000</u>

8. According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furnitures and fixtures.

9. (a) According to para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', prior period items refers to those income or expenses, which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period e.g., arrears payable to workers in current period as a result of revision of wages with retrospective effect.
- (b) As per para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', omission of two pages containing details of inventory worth ₹20 lakhs in 31.3.2024 is a prior period item. As per para 19 of the standard, prior period items are normally included in the determination of net profit or loss for the current period. Accordingly, ₹20 lakhs must be added to opening stock of 1.4.2024. An alternative approach is to show

such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

10. As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.

Hence, the company must recognize the loss immediately.

11. (i) **Shoes sent to Mohan Shoes (consignee) for consignment sale**

In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.

In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2024-25, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.

(ii) **Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date**

For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2024-25. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.

(iii) **Delivery is delayed at buyer's request**

On 21st March, 2025, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in

the year 2024-25 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

12. As per AS 10, Property, Plant and Equipment, the cost of an item of PPE includes:

- (a) Purchase price including import duties and non-refundable taxes,
- (b) Directly attributable costs to bring the asset to working condition (e.g., transport, installation, trial run),
- (c) Any trial run net costs (i.e., cost – recoverable proceeds).

Particulars	Amount (₹)
Purchase Price	12,00,000
Freight & Insurance	60,000
Erection Charges	40,000
Net Cost of Testing (25,000 + 10,000 – 8,000)	27,000
Cost of Machinery	13,27,000

Recognition of Motors Replacement

Particulars	₹
Cost of Motors	50,000
Less: Depreciation	35,000
Carrying Amount of Motors	15,000

Accounting: The company should derecognize the existing Carrying Amount of Motors replaced of ₹ 15,000. Further, the acquisition cost of new motors of ₹ 1,20,000 would be capitalized as a separate component.

Costs of relocating or reorganising part or all of the operations of an enterprise are not included in the carrying amount of an item of PPE. Hence Costs of relocation of ₹ 36,000 (12,000 + 18,000 + 6,000) of PPE are not capitalized. Thus, entire expense to be charged off to Profit and Loss A/c.

Thus, total capitalization (net off derecognition) = 14,32,000 (13,27,000 + 1,20,000 - 15,000).

13. (i) In the books of Zenith Industries Ltd ₹ 65 lakhs received from the local authority for providing medical facilities to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 65 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.
- (ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 82 lakhs should be credited to capital reserve.

14.

In the books of Kesar

Investment Account
(Equity shares in Beta Ltd.)

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.24	To Balance	75,000	11,25,000	31.3.25	By Balance	1,35,000	18,15,000
20.6.24	b/d To Bank A/c	15,000	2,40,000		c/d (Bal. fig.)		
1.8.24	To Bonus issue (W.N.1)	15,000	-				
5.11.24	To Bank A/c (right shares) (W.N.4)	30,000	4,50,000				
		1,35,000	18,15,000			1,35,000	18,15,000

Working Notes:

- (1) Bonus shares = $\frac{75,000 + 15,000}{6} = 15,000$ shares
- (2) Right shares = $\frac{75,000 + 15,000 + 15,000}{7} \times 3 = 45,000$ shares
- (3) Sale of rights = $45,000 \text{ shares} \times \frac{1}{3} \times ₹ 2 = ₹ 30,000$ to be credited to statement of profit and loss
- (4) Rights subscribed = $45,000 \text{ shares} \times \frac{2}{3} \times ₹ 15 = ₹ 4,50,000$

15.
In the books of Y Co. Ltd.
Journal Entries

		₹	₹
Business Purchase A/c To Liquidator of X Co. Ltd. (Being business of X Co. Ltd. purchased)	Dr.	55,00,000	55,00,000
Assets A/c (Bal. Fig.) To Business Purchase A/c To General Reserve A/c* (10,00,000 – 5,00,000) To Profit and Loss A/c (Being assets and reserves and surplus taken over)	Dr.	65,00,000	55,00,000 5,00,000 5,00,000
Liquidator of X Co. Ltd. To Equity share capital A/c (Being purchase consideration discharged through equity shares of Y Co. Ltd.)	Dr.	55,00,000	55,00,000

Working note:

*Purchase consideration (11/10*50 lakh)	₹ 55,00,000
Less: Share capital of X Co. Ltd.	<u>₹ 50,00,000</u>
To be adjusted from general reserve	<u>₹ 5,00,000</u>

- 16.** As per para 3 of AS 16 "Borrowing Costs" a qualifying asset as "an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". Further, para 5 of the AS explains that "Assets that are ready for their intended use or sale when acquired also are not qualifying assets".

In the given case, prima facie, it may appear that the residential building is ready for use when acquired, and thus, borrowing costs incurred on purchase of residential building should not be capitalised. However, since in the present case provision of housing facilities is necessary for the construction of the plant, the borrowing costs incurred are, in substance, directly attributable to the construction of the manufacturing plant. Accordingly, the company should capitalise, as a part of the cost of the manufacturing plant, borrowing costs incurred on funds borrowed to acquire the residential building upto the period the manufacturing plant is ready for its intended use.

- 17.** As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:
- (i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
 - (ii) Its segment **result** whether profit or loss is 10% or more of:
 - (1) The combined result of all segments in profit; or
 - (2) The combined result of all segments in loss, whichever is greater in absolute amount; or
 - (iii) Its segment **assets** are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

- (a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.
- (b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).
- (c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in atleast one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

18. As per para 23 of AS 18 on 'Related Party Disclosures', transactions of X Ltd., with its associate company for the first quarter ending 30.6.2024 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not to be disclosed as related party transaction

19. (a) Net effect on the Statement of Profit and Loss in the year of sale in the books of Lessee (Mansi Ltd.)

For calculation of net effect on the statement of profit and loss on sale of equipment, it has to be judged whether lease is an operating lease or finance lease.

The lease term is for 8 years which covers the entire economic life of the equipment. At the inception of the lease, the present value of the minimum lease payments (MLP) is ₹ 8,53,600 [₹ 1,60,000 x 5.335 (Annuity factor of ₹ 1 @10% for 8 years)] and amounts to at least substantially all of the fair value (sale price i.e. ₹ 8,52,800) of the leased equipment. Thus, lease is a finance lease.

As per para 48 of AS 19 "Leases", if a sale and leaseback transaction results in a finance lease, profit of ₹ 6,72,800 (Sale value ₹ 8,52,800 less carrying amount ₹ 1,80,000) will not be recognized as income in the year of sale in the books of lessee i.e. Mansi Ltd. It should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset.

Therefore, assuming that depreciation is charged on straight line basis, Mansi Ltd. will recognize depreciation of ₹ 1,06,600 per annum for 8 years (₹ 8,52,800/8) and amortise profit of ₹ 6,72,800 over the lease term of 8 years, i.e. ₹ 84,100 p.a.

The net effect is a debit of (₹ 1,06,600-84,100) ₹ 22,500 p.a. to the Statement of Profit and Loss, for 8 years as covered under the lease term.

20.
ABC Limited
Balance Sheet as at 31st March 2025

Particulars	Note No.	(₹ in '000)
A. Equity and Liabilities		
1. Shareholder's funds		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	971.00
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300.00
3. Current Liabilities		
(a) Trade Payables		<u>30.00</u>
Total		<u>1,796.00</u>
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment	4	1,550.00
2. Current Assets		
(a) Inventories		96.00
(b) Trade Receivables		120.00

(c) Cash and Cash equivalents	5	<u>30.00</u>
Total		<u>1,796.00</u>

ABC Limited
Statement of Profit and Loss for the year ended 31st March 2025

Particulars	Note No.	(₹ in '000)
I. Revenue from Operations		1200.00
II. Other Income	6	<u>6.00</u>
III. Total Revenue		<u>1,206.00</u>
IV. Expenses:		
Purchases		400.00
Finance Costs	7	30.00
Depreciation (10% of 800)		80.00
Other expenses	8	<u>150.00</u>
Total Expenses		<u>660.00</u>
V. Profit / (Loss) for the period (III – IV)		546.00

Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		<u>800</u>
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	<u>(5)</u>	495

2	Reserves and Surplus		
	Securities Premium Account		40
	General Reserve		150
	Profit & Loss Balance		
	Opening Balance	75	
	Add: Profit for the period	<u>546</u>	621
	Revaluation Reserve ₹ (960 – 800)		<u>160</u>
			<u>971</u>
3	Long-Term Borrowings		
	10% Debentures		300
4	PPE		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	<u>160</u>	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	<u>(24)</u>	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	<u>(210)</u>	
	Closing Balance		<u>590</u>
	Total		<u>1,550</u>
5	Cash and Cash Equivalents		
	Cash at Bank		
	With scheduled banks	23	
	With others (Abhay Bank Limited)	5	
	Cash in hand	<u>2</u>	30

6	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	<u>(4)</u>	6
7	Finance Costs		
	Debenture Interest		30
8	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	<u>45</u>	150



PAPER – 2: CORPORATE AND OTHER LAWS

PART – I: AMENDMENTS FOR SEPTEMBER 2025 EXAMINATIONS

The Study Material (July 2024 edition) is applicable for September 2025 examinations. This study material is updated for all amendments till 30th June, 2024.

All relevant amendments/ circulars/ notifications etc. in the Company law part for the period 1st July, 2024 to 28th February, 2025 are mentioned below:

THE COMPANIES ACT, 2013

Chapter 11: Companies Incorporated Outside India

Notification G.S.R 491(E) dated 12th August, 2024

The Central Government has amended the Companies (Registration of Foreign Companies) Rules, 2014, through the Companies (Registration of Foreign Companies) Amendment Rules, 2024.

Amendment:

In the Companies (Registration of Foreign Companies) Rules, 2014,-

- (i) in rule 3, in sub-rule (3), for the word, "registrar", the words, "Registrar, Central Registration Centre" shall be substituted.
- (ii) in rule 8, in sub-rule (1), the following proviso shall be inserted, namely:-
"Provided that the documents for registration by a foreign company referred to in sub-rule (3) of rule (3) shall be delivered in Form FC-1 to the Registrar, Central Registration Centre."

[Enforcement Date: 9th September, 2024]

For (i) Pg 11.6

Form, procedure and time for making application and submission of prescribed documents: According to the Companies (Registration of Foreign Companies) Rules, 2014, the above information shall be filed with the **Registrar** within 30 days of the establishment of its place of business in India, in Form *FC-1* along with prescribed fees and documents required to be furnished as provided in section 380(1). The application shall also be supported with an attested copy of approval from the Reserve Bank of India under the Foreign Exchange Management Act or Regulations, and also from other regulators, if any, approval is required by such foreign company to establish a place of business in India or a declaration from the authorised representative of such foreign company that no such approval is required.

For (ii) Pg 11.7

Proviso to rule 8(1) is newly inserted.

PART – II: QUESTION AND ANSWERS



QUESTIONS

DIVISION A: MULTIPLE CHOICE QUESTIONS

Case Scenario 1

Kapoor Limited is a mid-sized listed manufacturing company incorporated in the year 2010 by R.D. Kapoor. Mr. Kapoor has two son, Mr. Vineet and Mr. Aditya. Both Mr. Aditya and Mr. Vineet are working as directors in Kapoor Limited.

Kapoor Limited had some compliance issues in the past. In 2016–17, the company issued redeemable preference shares but later failed to pay dividends on them for some time. In September 2018, the company fixed this by clearing all its loans and paying the pending dividends to the preference shareholders. After resolving these issues, the company proposed to issue new equity shares with differential rights for the financial year 2019–20.

As part of its broader capital raising strategy, the board of directors decided to issue three different securities:

- a rights issue of equity shares to existing shareholders,
- a new class of preference shares offered exclusively to current equity shareholders, and
- a public issue of convertible debentures.

So, for the rights issue, it prepares a simplified document omitting several disclosures required under section 26(1) and for the new preference shares, they created a detailed prospectus but excluded certain financial reporting. But for the convertible debentures, they prepare a complete prospectus with all section 26(1) requirements.

Further, Ms. Roshni, a shareholder, owned 1,500 partly paid equity shares in the company (₹ 8 paid out of ₹ 10). On 5th July 2024, she applied to transfer 500 of these shares to Mr. Bakshi, who didn't know about it. The company sent him a notice on 10th July, 2024, which he received on 12th July, 2024. Since Mr. Bakshi was abroad, he saw the notice only on 20th July, 2024. After

realizing the shares had unpaid amounts, he sent an objection email on 24th July, 2024. However, the company went ahead with the transfer on 27th July, 2024, saying his objection came too late. According to the company's rules, the Board can approve the transfer of partly paid shares if they believe the buyer can pay the remaining amount in the future.

In another case, Mr. Varun, one of the shareholders of Kapoor Limited, is the legal representative of a deceased shareholder, Mr. Kartik. He had written an application to the company, to transfer the shares (of Mr. Kartik) in his name. But Mr. Varun did not receive any reply from the company. Mr. Varun went to the company office to inquire about the same. The company refused to transfer the shares in his name, as he is not the registered member of the company.

For your information, the company's financial position as of 31st March, 2024 is as follows:

- Paid-up equity share capital: ₹ 200 crore (20 crore shares of ₹ 10 each)
- Free reserves: ₹ 600 crore
- Securities premium: ₹150 crore
- Secured loans: ₹ 400 crore
- Unsecured loans: ₹300 crore

The Board of Directors approved a buy-back proposal on 15th September, 2024, to purchase 3 crore equity shares at ₹ 60 per share. The company had previously conducted a buy-back of 1 crore shares (₹ 10 crore) in August 2023 during the financial year 2023-24. The new buy-back is planned for October 2024, which falls in financial year 2024-25. The Chief Financial Officer has confirmed that post-buy-back, the debt-to-capital ratio would remain within prescribed limits, and the shares are fully paid-up.

In the light of the stated facts and figures, answer the following Multiple Choice Questions, as per the provisions of the Companies Act, 2013:

1. Since the default was made good in FY 2018-2019, the company considered to issue new equity share with differential rights. According to the provisions of the Companies Act, do you think the company is eligible to issue the shares for the financial year 2019-2020?

- (a) Yes, the company is immediately eligible to issue new shares as it has cleared all the dues and loan by September 2018.
 - (b) No, the company is ineligible to issue the shares as the company needs to wait three years till March 31, 2022.
 - (c) Yes, the company is eligible to issue new shares in the next financial year, as the default was made good in the previous FY year 2018-2019.
 - (d) No, the company is ineligible to issue the new shares as the company needs to wait for five years till March 31, 2024.
2. According to the provision of the Companies Act, do you consider the company's action of affecting the transfer of partly paid shares to Mr. Bakshi is valid?
 - (a) Yes, because the company waited for more than 7 days from the date of dispatch of notice before registering the transfer.
 - (b) No, because the transferee did not give his explicit consent before the transfer of partly paid shares.
 - (c) No, because Mr. Bakshi made objection within 2 weeks from the date of receipt of notice.
 - (d) Yes, because the Board has assessed Mr. Bakshi's financial capability before approving the transfer.
3. According to the provision of the Companies Act, can the company deny transferring shares in Mr. Varun's name and what is the company's obligation?
 - (a) Yes, the company can refuse the transfer if he is not a registered shareholder.
 - (b) No, the legal representative has the right to transfer even if they are not registered shareholder.
 - (c) No, the company can deny if the legal representative's name is not registered with the company.
 - (d) Yes, the company needs the approval from the Tribunal before transferring the shares.

4. Based on the buy-back limitations under the provision of the Companies Act, do you think the proposed buy-back is valid?
 - (a) Yes, the buy-back is valid as the total amount (₹ 180 crore) is within 25% of the aggregate paid-up capital and free reserves (₹ 800 crore), and the buy-back in the new financial year is not affected by the previous year's buy-back.
 - (b) Yes, the buy-back is valid as the number of shares (3 crore) is within the 25% of the total paid-up equity capital (5 crore shares).
 - (c) Yes, the buy-back is valid as the value of shares being bought back (₹ 180 crore) represents only 22.5% of the aggregate paid-up capital and free reserves (₹ 800 crore).
 - (d) No, the buy-back is invalid as the total amount (₹ 180 crore) combined with the premium being paid (₹ 150 crore above face value) exceeds 25% of the aggregate paid-up capital and free reserves.
5. The company had earlier made buy-back of 1 crore shares in August 2023. Can it legally conduct another buy-back in October 2024?
 - (a) Yes, as both of the gap between the buy backs is more than 1 year
 - (b) No, as only one buy-back is allowed in the company's lifetime
 - (c) No, only listed companies can do multiple buy-backs
 - (d) Yes, but only if Tribunal gives specific permission
6. Suppose, if Kapoor Limited's post-buy-back debt-to-equity ratio would have exceeded 2:1, which of the following is correct?
 - (a) Buy-back is still valid if Board approves
 - (b) Buy-back will be invalid unless a higher ratio is prescribed by the Central Government (through Notification) for the company
 - (c) The ratio rule applies only to private companies
 - (d) Buy-back is still valid as the Companies Act, 2013, does not prescribe any limit on debt-to-equity ratio.

Independent MCQs

7. Samyak Solutions Limited held its Annual General Meeting (AGM) on 20th September, 2024 to adopt the financial statements for the financial year ending 31st March, 2024. However, due to lack of quorum, the meeting was adjourned and was finally held on 27th September, 2024.

What is the last date for filing the Annual Return with the Registrar of Companies under the Companies Act, 2013.

- (a) 60 days from 31st March, 2024
 - (b) 60 days from 20th September, 2024
 - (c) 60 days from 27th September, 2024
 - (d) 60 days from 30th September, 2024
8. Blue Leaf Limited, an Indian company with a total paid-up share capital of ₹ 50 crore, has a wide base of shareholders, including a large number residing in the Middle East. Out of its total capital, ₹ 15 crore worth of shares are held by members residing in Kuwait.

To facilitate better maintenance of records and communication with its overseas shareholders, the company decides to open a foreign register in Kuwait containing the names and particulars of those members and other security holders residing there. The foreign register is formally opened on November 1, 2024.

Which of the following actions is Blue Leaf Limited required to take in this context?

- (a) File a resolution passed by the Board approving the foreign register with the Registrar of Companies within 60 days from November 1, 2024.
- (b) Send an intimation to the Ministry of External Affairs within 15 days of opening the foreign register.
- (c) File with the Registrar of Companies a notice of the situation of the Kuwait office within 30 days from November 1, 2024, along with the prescribed fee.
- (d) Apply to the Reserve Bank of India for approval to maintain a foreign register outside India.

9. Ms. Smriti, an Indian national, recently won ₹ 41 lakh in an international online lottery. She now wishes to remit an equivalent of US \$50,000 abroad to a foreign account using her lottery winnings. She approached her authorized dealer bank to request foreign exchange for this purpose. As per the provisions of the Foreign Exchange Management Act, 1999 and the relevant Rules, what is the correct position regarding Ms. Smriti's request to remit foreign exchange out of her lottery winnings?
- The remittance is allowed under the Liberalised Remittance Scheme (LRS) without any approval.
 - The remittance is allowed only with prior approval of the Reserve Bank of India.
 - The remittance is allowed only with prior approval of the Central Government.
 - The remittance is prohibited, as it falls under the First Schedule to the FEM (Current Account Transactions) Rules, 2000.
10. What among the following could be considered in the term 'Immovable Property' as per the General Clauses Act, 1897?
- The soil for making bricks
 - Right to catch fish
 - Right to drain water
 - Doors and Windows of the house
- Only (i) and (iv)
 - Only (i), (ii) and (iv)
 - Only (i) and (ii)
 - Only (ii), (iii) and (iv).

Descriptive Questions

11. On 30th June 2023, Sunrise Infratech Limited, raised secured deposits amounting to ₹ 160 crore from the public at an interest rate of 12% per annum, repayable after a period of 30 months. The company created

charges within the prescribed time in favour of the trustees for depositors, securing the deposits by creating charges over the following assets:

- Land and Building – ₹ 110 crore
- Plant and Machinery – ₹ 30 crore
- Factory Shed – ₹ 20 crore
- Trademark – ₹ 20 crore
- Goodwill – ₹ 30 crore

You are required to examine the validity of the charges created, particularly considering the nature of the assets offered as security, with reference to the applicable provisions of the Companies Act, 2013.

12. The company, Fateh Limited, engaged in the business of electronics manufacturing, has a paid-up share capital of ₹ 12.50 crore and a shareholder base comprising 3,500 members. The company's equity shares are listed on a recognized stock exchange, and it has a history of strong shareholder participation in general meetings.

On 10th May, 2025, the Board of Directors issued a notice convening the Annual General Meeting (AGM) to be held on Saturday, 13th June, 2025 at 11:00 AM at the company's registered office in Mangalore, for considering ordinary and special business items, including approval of the financial statements and appointment of a new independent director.

On the scheduled date, however, the required quorum, was not present. Consequently, the meeting was adjourned to the same time and place on the next Saturday, i.e., 20th June, 2025.

In connection with the meeting and its adjournment, the company's compliance officer has raised the following queries for legal clarification:

- (i) If only two members (in person) are present at the adjourned meeting on 20th June, 2025, will the meeting be validly held and its business transacted?
- (ii) Assume that on 13th June, 2025, 16 members (in person) were present, but due to disorderly conduct by a few shareholders

during the proceedings, the Chairman exercised his discretion and adjourned the meeting to 20th June, 2025. On that date, only three members (in person) attended the adjourned meeting. Would such a meeting be valid in terms of quorum requirements?

The company has approached you to analyse both scenarios with reference to the provisions of the Companies Act, 2013.

13. Stridewalk Limited, a listed company engaged in the manufacturing and export of premium shoes and accessories, has been undergoing financial restructuring over the past few years. After several years of operational losses and sluggish growth, the Board recently appointed a new Production Manager, Mr. Arjun Mehra, whose strategic improvements have helped to revive the company's margins and production efficiency.

In light of the improved performance and renewed investors' confidence, the Board of Directors, at its meeting held on 20th April, 2025, resolved to recommend a final dividend of ₹50 lakh to its equity shareholders — a notable development as this would be the first dividend declaration in eight years.

The financial data available is as follows:

- Current year profit (after providing for depreciation and necessary reserves): ₹ 16 lakh
- Accumulated profits /free reserves over the past eight years: ₹ 170 lakh
- Paid-up share capital of the company: ₹ 680 lakh
- The proposed dividend of ₹ 50 lakh is intended to be funded partly from the current year's profit and partly from the accumulated profits of previous years.

As the current year's profits alone are not sufficient to meet the proposed dividend payout, the company plans to draw from free reserves as permitted under the Companies Act, 2013.

With reference to the provisions of the Companies Act, 2013 and the Companies (Declaration and Payment of Dividend) Rules, 2014, examine whether the proposed dividend declaration by Stridewalk Limited

complies with the legal conditions applicable in the case of inadequate profits.

14. New Sales Pvt. Limited, a company engaged in the business of trading heavy-duty paper tapes used in industrial packaging, has seen consistent growth over the past five years. The company's turnover for the financial year 2024–25 crossed ₹ 130 crore, with a net profit of ₹ 9.2 crore.

During the same financial year, the company's long-serving Chief Financial Officer (CFO), Mr. Ram, retired in December 2024 due to prolonged health issues. Following his retirement, Mr. Shyam, a qualified Chartered Accountant with two decades of experience in financial reporting, was appointed as the new CFO in March 2025.

Upon assuming his duties and reviewing the company's past financial records and statutory filings, Mr. Shyam noted certain material classification errors and omissions in the audited financial statements for the year 2021–22.

Concerned about the potential implications of these discrepancies, Mr. Shyam advised the Board of Directors of New Sales Pvt. Limited to revise the financial statements for FY 2021–22, even though the financial statements had already been adopted by the shareholders and filed with the Registrar of Companies (RoC).

With reference to the relevant provisions of the Companies Act, 2013, examine and advise whether New Sales Pvt. Limited is permitted to revise its financial statements for the financial year 2021–22.

15. Pride Pvt. Limited, a start-up by a few qualified professionals, was incorporated in 2018. The company is booming and favouring the younger generation to work. The Capital Structure of the company is as follows:

Particulars	INR (Crore)
Authorised Share Capital	
1,00,00,000 Equity Shares of ₹ 10 each	10
Issued, Subscribed and Paid-up Share Capital	
50,00,000 Equity Shares of ₹ 10 each	5

Share Premium	1
General Reserve	3.52
Profit & Loss Account	1.58

The company decided to issue 30% of its equity share capital as sweat equity shares to a class of directors and permanent employees with the objective of motivating them and making them partners in the company's growth. The proposed sweat equity shares will be subject to a lock-in period of five years.

Accordingly, the company passed a resolution in its general meeting authorizing the issuance of 15 lakh sweat equity shares at a current market price of ₹ 25 per share, to be issued for a consideration of ₹ 5 per share to the identified class of directors and employees.

In light of the above facts and in accordance with the provisions of the Companies Act, 2013, examine the following:

- (i) Whether size of issue of sweat equity shares was appropriate?
- (ii) Whether lock-in period was justifiable?

16. Shubham Limited is the holding company of Vaibhav Pvt. Limited. As per the financial statements of Vaibhav Pvt. Limited for the financial year ending 31st March 2025, its turnover was ₹1.80 crore and its paid-up share capital was ₹ 80 lakh. The Board of Directors of Vaibhav Pvt. Limited intends to avail the status of a small company under the Companies Act, 2013.

However, the Company Secretary advised the Board that Vaibhav Pvt. Limited cannot be classified as a small company.

In light of the above facts, examine the correctness of the advice given by the Company Secretary with reference to the relevant provisions of the Companies Act, 2013.

The Limited Liability Partnership Act, 2008

17. Ravi and Neha, two entrepreneurs, plan to start a new Limited Liability Partnership (LLP) focused on AI-based software development. They decide to name their LLP as "NextGen AI Innovations LLP." Before proceeding with the incorporation, they want to ensure that their chosen name is available and reserved. They apply to the Registrar through the prescribed web-based platform and pay the required fee for name reservation.

Describe the legal requirements as to the reservation of a name as per relevant provisions under the Limited Liability Partnership Act, 2008.

The General Clauses Act, 1897

18. "No person shall be prosecuted and punished for the same offence more than once." Explain in the light of provisions of the General Clauses Act, 1897.

Interpretation of Statutes

19. What is meant by beneficial construction in statutory interpretation? Under what circumstances the rule of beneficial construction is generally applied?

The Foreign Exchange Management Act, 1999

20. Ms. Pearl was an Indian citizen who got a job in a software company in USA. She went to USA and stayed there for 15 years. During her stay, she purchased a house in USA for her residence. Then due to some personal issues she moved back to India and joined a software company in India. As she had moved back to India, she let out her house in USA and deposited the obtained rent in her account in USA.

Advise whether Ms. Pearl can purchase another house in USA from her account in USA? Give your answer referring to the provisions of the Foreign Exchange Management Act, 1999.

**SUGGESTED ANSWERS****Multiple Choice Questions**

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

Descriptive Questions

11. As per second proviso to section 76(1) of the Companies Act, 2013, every company which accepts secured deposits from the public shall within 30 days of such acceptance, create a charge on its assets. The amount of charge shall not be less than the amount of deposits accepted. The charge shall be created in favour of the deposit holders in accordance with the prescribed rules.

In respect of creation of security, Rule 6 of the Companies (Acceptance of Deposit) Rule, 2014, states that the company accepting secured deposits shall create security by way of charge on its tangible assets only.

The other notable points are:

- The company cannot create charge on intangible assets (i.e. goodwill, trade-marks, etc.).

- Total value of security should not be less than the amount of deposits accepted and interest payable thereon.

In the given question,

Particulars	Amount (in ₹)
Total value of security (value of assets on which charge can be created)	110+30+20 [Land and Building, Plant & machinery and Factory Shed] = 160 crore
Total deposits accepted and interest payable thereon	160+ [(160*12%)*3 years] = 217.6 crore

Since, the total value of security is less than the amount of deposits accepted and interest payable thereon, hence the charge is not validly created.

12. According to section 103 of the Companies Act, 2013, in case of a public company, unless the articles of the company provide for a larger number, if the number of members is more than 1000 but upto 5000, then the quorum shall be 15 members personally present.

If the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company:

- the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date and such other time and place as the Board may determine; or
- the meeting, if called by requisitionists under section 100, shall stand cancelled:

Provided that in case of an adjourned meeting or of a change of day, time or place of meeting under clause (a), the company shall give not less than three days' notice to the members either individually or by publishing an advertisement in the newspapers (one in English and one in vernacular language) which is in circulation at the place where the registered office of the company is situated.

Quorum not present at the adjourned meeting also: Where quorum is not present in the adjourned meeting also within half an hour, then the members present shall form the quorum.

In the given question, the quorum for the given company having 3500 members shall be 15 members personally present.

- (i) Where quorum is not present in the adjourned meeting (i.e. 20th June, 2025) also within half an hour, then the two members present shall form the quorum. In this case, the meeting held with 2 members shall be deemed to be validly held and the business transacted thereat shall also be deemed to be validly done.
- (ii) The meeting held on 13th June, 2025 had 16 members present. Hence, the quorum was present. However, the meeting was adjourned due to unruly behaviour of some members and not for want of quorum. In the meeting held on 20th June, 2025, only 3 members in person were present. In such a case, these 3 members shall not constitute the quorum and hence, shall stand further adjourned.

13. According to second proviso to section 123, where in any year there are no adequate profits for declaring dividend, the company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the free reserves only in accordance with the procedure laid down in Rule 3 of *the Companies (Declaration and Payment of Dividend) Rules, 2014*.

Free Reserves means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.

Under Rule 3 such declaration shall be subject to the following conditions:

CONDITION I

The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the immediately preceding three years.

However, this condition shall not apply if the company has not declared any dividend in each of the three preceding financial year.

CONDITION II

The total amount to be drawn from such accumulated profits shall not exceed 10% of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

CONDITION III

The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared and only thereafter, any dividend in respect of equity shares shall be declared.

CONDITION IV

The balance of reserves after such withdrawal shall not fall below 15% of its paid-up share capital as appearing in the latest audited financial statement.

In the given question, since Stridewalk Limited current year profits of ₹ 16 lakh are insufficient to meet the dividend requirement of ₹ 50 lakh, hence the company has to fulfil the conditions as prescribed under Rule 3 (mentioned above).

Particulars	Amount (in ₹)
Amount of dividend declared (A)	50 lakh
Current year profits (B)	16 lakh
Amount to be withdrawn accumulated profits [(A)- (B)]	34 lakh
Accumulated profits during the past 8 years	170 lakh
paid up share capital of the company	680 lakh

Fulfilment of Conditions mentioned in Rule 3

Conditions	Calculation		Met/ Not Met
I	This condition is not applicable the company has not declared any dividend in each of the three preceding financial year.		-
II	Paid-up share capital and free reserves	680+ 170	Met
		= 850 lakh (C)	

	10% of (C)	85 lakh	
	Amount to be withdrawn accumulated profits i.e. 34 lakhs is less than (C)		
III	The company has since made profit in the financial year in which dividend is declared.		Met
IV	Free Reserves (D)	170 lakh	Met
	Amount drawn for payment of dividend (E)	34 lakh	
	Balance of reserves after such withdrawal (F) =(D)- (E)	136 lakh	
	15% of its paid up share capital (G)	102 lakh	
	(F) more than (G)		

In the given question, since all the conditions are met, hence Stridewalk Limited has validly declared dividend.

14. Voluntary Revision of Financial Statements or Board's Report on the Approval of the Tribunal

As per section 131 of the Companies Act, 2013, if it appears to the directors of a company that:

- the financial statement of the company does not comply with the provisions of section 129; or
- the report of the Board does not comply with the provisions of section 134

they may prepare revised financial statement or board's report in respect of any of the 3 preceding financial years after obtaining the approval of the Tribunal on an application made by the company within fourteen days of the decision taken by the Board.

A certified copy of the order of the Tribunal shall be filed with the Registrar of Companies within 30 days of the date of receipt of the certified copy.

In the given question, Mr. Shyam has advised the Board of New Sales Pvt. Limited to revise the financial statements for the year 2021-22. The Board of Directors can do so as the said financial statements are pertaining to not later than three preceding financial years (from 2024-2025) and by obtaining the approval of the Tribunal within fourteen days of the decision taken by the Board.

- 15. Issue of Sweat Equity Shares:** As per section 53, a company shall not issue shares at a discount, except as provided in section 54.

Section 54 of the Companies Act, 2013 states that sweat equity shares are issued to keep the employees of a company motivated by making them partner in the growth of the company.

Section 54 mentions the provisions which need to be adhered to by a company if it desires to issue sweat equity shares.

Conditions: According to section 54(1), a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely—

- (a) the issue is authorised by a special resolution passed by the company;
- (b) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued.

Limit on issue of Sweat Equity Shares: According to proviso to Rule 8 (4) of the Companies (Share Capital & Debentures) Rules 2014, w.r.t a start-up company, it may issue sweat equity shares not exceeding fifty percent of its paid-up capital up to ten years from the date of its incorporation or registration.

Lock-in Period: Rule 8(5) of the Companies (Share Capital & Debentures) Rules 2014, states that the sweat equity shares issued to directors or employees shall be locked in/non-transferable for a period of three years from the date of allotment.

Accordingly, in the given instance,

- (i) Size of issue of sweat equity shares was appropriate, as the decision of the company to issue 30% sweat equity shares to a

class of directors and employees was within the prescribed limit of 50% (in case of startup company). Resolution containing 15 lakh sweat equity shares was also within the limit of 25 lakh sweat equity shares (i.e., 50% of paid-up capital) with the details as to the current market price and with the consideration to be issued.

- (ii) No, as per law, lock-in period will be of three years from the date of allotment. Here, it states five years which is against the law.

16. As per section 2(85) of the Companies Act, 2013, Small company means a company, other than a public company, —

- (i) paid-up share capital of which does not exceed four crore rupees, and
- (ii) turnover of which as per profit and loss account for the immediately preceding financial year does not exceed forty crore rupees:

Provided that nothing in this clause shall apply to—

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act.

In the instant case, as per the last profit and loss account for the year ending 31st March, 2025 of Vaibhav Pvt. Limited, its turnover was to the extent of ₹ 1.80 crore, and paid-up share capital was ₹ 80 lakh. Though Vaibhav Pvt. Limited, as per the turnover and paid-up share capital norms, qualifies for the status of a 'small company' but it cannot be categorized as a 'small company' because it is the subsidiary of another company (Shubham Limited).

Hence, the advice of the Company Secretary is correct.

17. Under section 16 of the Limited Liability Partnership (LLP) Act, 2008, a person may apply to the Registrar for the reservation of a name in either of the following circumstances:

- (a) As the name of a proposed LLP, or
- (b) As the name to which an existing LLP proposes to change its name.

The application must be made in the prescribed form and manner along with the prescribed fee.

Upon receiving such an application, the Registrar may, if satisfied that the name is not one liable to be rejected under section 15(2) of the LLP Act, reserve the name for a period of three months from the date of intimation by the Registrar.

As per section 15(2), no LLP shall be registered by a name which, in the opinion of the Central Government is—

- (a) undesirable; or
- (b) identical or too nearly resembles to that of any other LLP or a company or a registered trademark of any other person under the Trade Marks Act, 1999.

18. Provision as to offence punishable under two or more enactments

As per section 26 of the General Clauses Act, 1897, where an act or omission constitutes an offence under two or more enactments, then the offender shall be liable to be prosecuted and punished under either or any of those enactments, but shall not be punished twice for the same offence.

Article 20(2) of the Constitution of India states that no person shall be prosecuted and punished for the same offence more than once.

Provisions of section 26 of the General Clauses Act, 1897 read with Article 20(2) of the Constitution of India apply only when the two offences which form the subject of prosecution is the same, i.e., the ingredients which constitute the two offences are the same. If the offences under the two enactments are distinct and not identical, none of these provisions will apply.

19. Beneficial construction is not a strict rule of interpretation but rather a method used to interpret a statute liberally in order to give effect to the declared intention of the legislature, particularly when the statute is enacted to benefit a specific class of people.

Beneficial construction will be applied to a statute, which brings into effect provisions for improving the conditions of certain classes of people who are under privileged or who have not been treated fairly in

the past. In such cases it is permissible to give an extended meaning to words or clauses in enactments. But this can only be done when two constructions are reasonably possible and not when the words in a statute are quite unequivocal or clear. Thus, if the language of the statute is clear and unambiguous, the courts must follow the plain meaning and cannot stretch the language beyond its natural meaning.

- 20.** According to section 6(4) of the Foreign Exchange Management Act, 1999, (the Act) a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.

As per the fact, Ms. Pearl during her stayed in USA purchased a house in USA.

As per the above provision and facts of the case, Ms. Pearl can purchase the new house in USA from her USA account.



PAPER – 3: TAXATION

SECTION A: INCOME TAX LAW

The Income-tax law, as amended by the Finance (No. 2) Act, 2024, including significant notifications/ circulars issued upto 28th February, 2025, is applicable for September, 2025 examination. The relevant assessment year for September, 2025 examination is A.Y.2025-26. The October, 2024 edition of the Study Material is based on the provisions of Income-tax law as amended by the Finance (No. 2) Act, 2024 and significant notifications/circulars issued upto 30.09.2024, and hence, the same is relevant for September, 2025 examination. Since there is no significant notifications/circulars issued between 1.10.2024 and 28.02.2025, Statutory Update is not issued for September 2025 Examination.



QUESTIONS

Case Scenario

Mr. Manish is a real estate developer. His main business is construction, development and sale of residential properties. He developed a project named Ashiyana Heaven which has both residential and commercial units. He obtained certificate of completion for the said project on 1.2.2023. He sold majority of the units, however, 15 residential units and 10 commercial units were not sold and held as stock in trade. To earn some income from such units, he let out 10 residential and 5 commercial units from 1st May 2024 at ₹ 15,000 p.m. and ₹ 20,000 p.m. each, respectively. Expected rent of each residential unit is ₹ 14,000 p.m. and ₹ 22,000 p.m. for each commercial unit. All units are identical.

Mr. Manish is also engaged with the firm Zoco & associates as a sleeping partner. The firm has 3 partners. His capital in the firm is ₹ 10,00,000. Each

partner received interest @15% on capital from the firm and remuneration @ ₹ 30,000 p.m. Interest and remuneration are authorized by partnership deed. The book profit of the firm for the P.Y. 2024-25 is ₹ 9,50,000.

He has taken four life insurance policies. The details of such policies are given hereunder:

Particulars	A	B	C	D
Date of Issue	1.4.2021	1.4.2023	1.2.2024	1.7.2024
Annual Premium	₹ 4,00,000 (excluding GST@18%)	₹ 1,50,000 (excluding GST @18%)	₹ 2,00,000 (excluding GST@18%)	₹ 3,00,000 (excluding GST@18%)
Date when premium falls due every year	1 st April	1 st April	1 st Feb	1 st July
Date of maturity	31.3.2030	31.3.2032	31.1.2033	30.6.2033
Consideration received on maturity (including bonus)	₹ 40,00,000	₹ 20,00,000	₹ 25,00,000	₹ 32,00,000
Sum assured	₹ 35,00,000	₹ 14,00,000	₹ 22,00,000	₹ 31,00,000

Based on the facts of the case scenario given above, choose the most appropriate answer to the following multiple choice questions:

- How much amount would be taxable in respect of income earned by Mr. Manish for let out of the residential and commercial units and under which head?
 - ₹ 11,55,000 from residential units and ₹ 8,47,000 from commercial units both under the head "Income from house property".
 - ₹ 11,55,000 from residential units under the head "Income from house property"; ₹ 7,70,000 from commercial units under the head "Income from house property".
 - ₹ 10,78,000 from residential units under the head "Income from house property"; ₹ 8,47,000 from commercial units under the head "Profits and gains from business or profession".
 - ₹ 11,55,000 from residential units under the head "Income from house property"; ₹ 12,10,000 from commercial units under the head "Profits and gains from business or profession".

2. What would be your answer to MCQ 1, if Mr. Manish is not a real estate developer and has a business of letting out of properties?
 - (a) ₹ 16,50,000 from residential units under the head "Profits and gains from business or profession"; ₹ 11,00,000 from commercial units under the head "Profits and gains from business or profession".
 - (b) ₹ 11,55,000 from residential units under the head "Income from house property"; ₹ 8,47,000 from commercial units under the head "Income from house property".
 - (c) ₹ 16,50,000 from residential units under the head "Profits and gains from business or profession"; ₹ 12,10,000 from commercial units under the head "Profits and gains from business or profession".
 - (d) ₹ 11,55,000 from residential units under the head "Income from house property"; ₹ 11,00,000 from commercial units under the head "Profits and gains from business or profession".
3. What would be the tax treatment of vacant residential and commercial units held as stock in trade during the P.Y. 2024-25?
 - (a) No tax treatment would be there as the units were not let out and held as stock in trade and 2 years have not lapsed from the end of the F.Y. in which certificate of completion is obtained.
 - (b) Vacant units would be deemed to be let out for 2 months i.e., February and March 2025 and expected rent would be taxable under the head "Income from house property".
 - (c) Vacant units would be deemed to be let out for 2 months i.e., February and March 2025 and expected rent of residential units would be taxable under the head "Income from house property" and expected rent of commercial units would be taxable under the head "Profits and gains from business or profession".
 - (d) Vacant units would be deemed to be let out for 2 months i.e., February and March 2025 and expected rent would be taxable under the head "Profits and gains from business or profession".

4. Which of the life insurance policies would be exempt at the time of maturity proceeds?
 - (a) LIC "B", "C" and "D"
 - (b) None
 - (c) LIC "C" and "D"
 - (d) All

5. What would be the income taxable in the hands of Mr. Manish from the firm, Zoco & associates, for A.Y. 2025-26?
 - (a) ₹ 4,80,000
 - (b) ₹ 1,20,000
 - (c) ₹ 3,70,000
 - (d) ₹ 3,90,000

6. Mr. Varun, an Indian citizen, engaged in consultancy business in India. He shifted to Dubai in the year 2019 to expand his consultancy business overseas. He visits India every year to supervise his office in Delhi. His stay in India for current as well as past years is as follows:
 - P.Y. 2020-21: 95 days
 - P.Y. 2021-22: 105 days
 - P.Y. 2022-23: 95 days
 - P.Y. 2023-24: 75 days
 - P.Y. 2024-25: 100 days

During the P.Y. 2024-25, he earned the following income:

 1. Income from consultancy business in India – ₹ 10,00,000
 2. Income from consultancy business in Dubai - ₹ 4,00,000
 3. Agricultural income from land situated in Kerala - ₹ 70,000
 4. Dividend from an Indian company, received in Dubai - ₹ 50,000
 5. Interest expenditure on investment in above shares - ₹ 15,000

You are required to:

- (a) Determine Mr. Varun's residential status for A.Y. 2025-26, assuming he is not liable to tax in Dubai.
 - (b) Compute the Total income of Mr. Varun for P.Y. 2024-25 if he opts out of the default tax regime.
7. Mr. Aryan, a resident individual, is working in Nishchay Ltd. and earns salary of ₹ 90,000 per month during P.Y. 2024-25. He holds 20,000 equity shares of Alpha Ltd., an Indian listed company, purchased on 1st January 2016 at ₹ 200 per share. These were acquired through a recognized stock exchange and STT was paid on both acquisition and sale.

In August, 2024, Mr. Aryan transferred a plot in Chandigarh for ₹ 70 lakhs which was acquired by him in May 2016 for ₹ 22 lakhs. He paid brokerage of 1% on transfer.

In November, 2024, Alpha Ltd. decided to buy back 50% of its shares at ₹ 250 per share. Alpha Ltd. bought back proportionate shares of Mr. Aryan. In May 2025, Mr. Aryan acquired a residential house property in Kanpur for ₹ 40 lakhs. Fair Market value of equity shares of Alpha Ltd. as on 31.1.2018 was ₹ 190 per share.

You are required to compute the total income of Mr. Aryan if he is paying tax under default tax regime.

CII for F.Y. 2015-16: 254; F.Y. 2016-17: 264; F.Y. 2017-18: 272; F.Y. 2024-25: 363

8. Mr. Suraj, aged 40 years, submits the following information for the financial year ending 31.3.2025:
 - (i) He is employed in ABC Ltd. and earned salary income of ₹ 10,50,000 (computed).
 - (ii) He is engaged in a speculation and a non-speculation business. He earned profit from speculation business of ₹ 60,000 and suffered loss from non-speculation business of ₹ 40,000.
 - (iii) He reported short-term capital gain of ₹ 80,000. He also received lottery winnings of ₹ 20,000 (Gross).

- (iv) He has a brought forward long-term capital loss of ₹ 30,000 from A.Y. 2023–24.
- (v) Mr. Suraj has two children: one married daughter Riya aged 17 years, and a son Raj aged 16 years. The interest income of Riya and Raj is ₹ 1,200 p.a. and ₹ 2,000 p.a., respectively.
- (vi) He transferred a flat to Riya on 1st April 2024, on account of natural love and affection. This flat was let out from that date and generated rental income of ₹ 5,000 per month.
- (vii) Mr. Suraj paid a medical insurance premium of ₹ 22,000 during the financial year to insure his health, his spouse and dependent children. Additionally, he paid ₹ 33,000 to insure the health of his mother, aged 67 years, who is not dependent on him. He also incurred ₹ 20,000 as medical expenditure for his father, aged 71 years, who is not dependent and is not covered under any insurance policy. He contributed ₹ 6,000 during the year to the Central Government Health Scheme (CGHS).

Compute the total income of Mr. Suraj assuming that Mr. Suraj's total income is higher than Mrs. Suraj's total income, before including the income of minor children. Mr. Suraj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

9. Examine the applicability and determine the amount of tax deduction at source (TDS) as per the Income-tax Act, 1961 for the A.Y. 2025-26 in the following situations:
- (i) Nexus Tech Pvt. Ltd., a company engaged in the business of manufacturing electronic goods, reported a turnover of ₹ 12 crore during the F.Y. 2023–24. During the F.Y. 2024–25, the company made the following purchases from resident sellers:
 - **From Vendor A** – Raw materials worth ₹ 60,00,000 (₹ 25 lakh in April, ₹ 35 lakh in July). Payment of ₹ 20 lakhs was made in June and remaining payment in September. Vendor A has not furnished his PAN.

- **From Vendor B** – Trading goods worth ₹ 48,00,000 on instalments (₹ 15 lakh in May, ₹ 20 lakh in October, ₹ 13 lakh in December). Entire payment was made in March, 2025.

It is to be noted that Nexus Tech Pvt. Ltd. made the entry in its books on the date of purchase and TCS provisions are not applicable on vendors.

- (ii) In January 2025, Mr. Sumit, engaged in business having turnover of ₹ 1.20 crores during the P.Y. 2023-24, enters into an annual maintenance contract (AMC) with ABC Ltd., a resident company, for ₹ 5,40,000 *plus* GST@18%. Mr. Sumit made the payment in February 2025 and ABC Ltd. has not provided its PAN to Mr. Sumit.
10. Mr. Shobhit, a resident individual aged 54 years, engaged in the manufacture of spare parts of cars. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended 31.3.2025 shows a net profit of ₹ 57,25,000 after debiting/crediting the following:
- (i) During the year, Mr. Shobhit purchased plant and machinery for ₹ 55 lakhs for which he took loan from a scheduled bank. (Date of loan 1.5.2024 and rate of interest 11% p.a.). The asset was acquired on 1.7.2024 and put to use on 1.9.2024. The entire interest amount is debited to the profit and loss account.
 - (ii) On 1.4.2024, the production manager working in the factory of Mr. Shobhit took voluntary retirement from the services. Mr. Shobhit paid him ₹ 8,00,000 as compensation for his services under the Voluntary Retirement Scheme.
 - (iii) Mr. Shobhit purchased raw material from M/s Kamal & Sons, a micro enterprise, and M/s Hitesh & Sons, a medium enterprise, for ₹ 51,000 and ₹ 75,000, respectively on 15.3.2025. As per the written agreement with them, both the payment has to be made by 10.4.2025. Mr. Shobhit made the payment to M/s Kamal & Sons on 9.4.2025 and to M/s Hitesh & Sons on 15.11.2025.
 - (iv) He contributed 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD which is debited to the profit and loss account. Basic salary of the

employees aggregate to ₹ 10 lakhs and dearness allowance is 40% of basic salary and it forms part of retirement benefit.

- (v) Depreciation debited to profit and loss account is ₹ 27,50,000.
- (vi) He received ₹ 13,850 as income-tax refund out of which ₹ 3,850 is interest on refund. The entire amount is credited to profit and loss account.

Additional Information:

- (a) Mr. Shobhit purchased a new computer on 31st August, 2024 and was put to use on the same day in his office. The payment was made as under:
 - ₹ 28,000 paid in cash at the time of purchase of new computer on 31/08/2024
 - ₹ 25,000 paid by account payee cheque on 05/09/2024 as balance cost of new computer
- (b) WDV (as per the Income-tax Act, 1961) of different assets as on 1.4.2024:
 - Plant and machinery ₹ 8,00,000;
 - Factory Building ₹ 6,45,000
- (c) He paid ₹ 50,000 as life insurance premium taken on the life of his father who is dependent on him. The sum assured is ₹ 8,00,000 and the policy was taken on 1.4.2015.
- (d) He also paid ₹ 45,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2017.
- (e) On 1.10.2024, he withdrew ₹ 1.50 crores in cash from two current accounts maintained by him with PNB Bank of India. There are no other withdrawals during the year.
- (f) Mr. Shobhit had sold a house on 30th March, 2022 and deposited the long term capital gains of ₹ 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st July, 2024, he sold another house property in which he resided

for ₹ 1 crore. He earned a long-term capital gain (without indexation benefit) of ₹ 50,00,000 on sale of this property. On 5th January, 2025, he withdrew the whole money out of his capital gain account and invested ₹ 60 lakhs on construction of a house in Mumbai. The construction of the house completed on 23rd March 2025. The indexed cost of acquisition of the house property is ₹ 60 lakhs.

You are required to compute the total income of Mr. Shobhit and also the tax payable by him after TDS/TCS credit, if any, for the A.Y. 2025-26 if he is opting out of the default tax regime.


SUGGESTED ANSWERS

Question No.	Answer
1.	(a) ₹ 11,55,000 from residential unit and ₹ 8,47,000 from commercial unit both under the head "Income from house property"
2.	(d) ₹ 11,55,000 from residential unit under the head "Income from house property"; ₹ 11,00,000 from commercial unit under the head "Profits and gains from business or profession"
3.	(a) No tax treatment would be there as the units were not let out and held as stock in trade and 2 years have not lapsed from the end of the F.Y. in which certificate of completion is obtained.
4.	(c) LIC "C" and "D"
5.	(b) ₹ 1,20,000

6. (a) Determination of residential status

As per section 6(1), an Indian citizen who, being outside India comes on a visit to India during the relevant previous year is said to be resident in India if he has been in India during the previous year for a total period of 182 days or more.

However, if his total income, other than the income from foreign sources exceeds ₹ 15 lakhs during the previous year, he will also be treated as resident in India if he has been in India for at least 120 days in the previous year and has been in India during the 4 years immediately preceding the relevant previous year for a total period of 365 days or more.

Mr. Varun visited India only for 100 days during the P.Y. 2024-25, hence he is a non-resident as per section 6(1) irrespective of whether his total income, other than the income from foreign sources exceeds ₹ 15 lakhs or not.

As per section 6(1A), an Indian citizen, having total income, other than the income from foreign sources, exceeding ₹ 15 lakhs during the previous year would be deemed to be resident in India in that previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

Computation of total income, other than the income from foreign sources, of Mr. Varun

Particulars	₹	₹
Income from consultancy business in India [Accrued or arisen in India]		10,00,000
Income from consultancy business in Dubai [Income derived from a profession set up in India]		4,00,000
Agricultural income from land in Kerela [Exempt u/s 10(1)]		-
Dividend from Indian company	50,000	

Less: Deduction for interest expenses upto 20%	10,000	40,000
		14,40,000

Since Mr. Varun's total income, other than the income from foreign sources, does not exceed ₹ 15 lakhs, he is not deemed resident as per section 6(1A).

Thus, Mr. Varun is a non-resident for A.Y. 2025-26.

(b) Computation of total income of Mr. Varun, a non-resident, for A.Y. 2025-26

Particulars	₹	₹
Income from consultancy business in India [Taxable as income accrued or arisen in India]		10,00,000
Income from consultancy business in Dubai [Not taxable since neither income accrued or arisen in India nor received in India]		-
Agricultural income from land in Kerela [Exempt u/s 10(1)]		-
Dividend from Indian company	50,000	
Less: Deduction for interest expenses upto 20%	10,000	40,000
		10,40,000

7. Computation of total income of Mr. Aryan for A.Y. 2025-26

Particulars	₹	₹
I Salaries		
Salary from Nishchay 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

II	Capital Gains		
	On buy back of equity shares of Alpha Ltd.		
	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)	
	On sale of plot		
	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 in 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 [₹ 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 A.Y. 2026-27	<u>19,99,841</u>	Nil
III	Income from Other Sources		
	Dividend on buy back of shares [10,000 x 250]		<u>25,00,000</u>
	Total Income		<u>35,05,000</u>

8. Computation of total income of Mr. Suraj for the A.Y.2025-26

Particulars		₹	₹
I	Salaries		
	Income from Salary (computed)		10,50,000
II	Income from business		
	Income from speculation business	60,000	
	Less: Loss from non-speculation business	<u>(40,000)</u>	20,000
	As per section 73(1), loss from speculation business cannot be set off against profit from non-speculation business. However, there is no restriction under section 72 to set off loss from non-speculation business against profit from speculation business.		
III	Capital Gains		
	Short-term capital gain		80,000
	As per section 74(1), long term capital loss can be set off only against long		

term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to A.Y. 2026-27			
IV Income from Other Sources			
Winnings from lotteries			<u>20,000</u>
Gross Total income before including income of minor children			11,70,000
Income of minor married daughter Riya			
(i) Interest income		1,200	
(ii) GAV [Rental income from house property] [₹ 5,000 x 12]	60,000		
[Section 27 is not attracted if the house property is transferred by a parent to a minor married daughter. Hence, Mr. Suraj is not a deemed owner of the house property. However, by virtue of section 64(1A), all income of a minor child is includible in the hands of parent whose income is higher.]			
Less: 30% of GAV	<u>18,000</u>	<u>42,000</u>	
		43,200	
Less: Exempt under section 10(32)		<u>1,500</u>	41,700
Income of Minor Son Raj			
Interest income		2,000	
Less: Exempt under section 10(32)		<u>1,500</u>	<u>500</u>
Gross Total Income			12,12,200
Less: Deduction under section 80D (Refer working note below)			<u>75,000</u>
Total Income			11,37,200

Working Note

Deduction allowable under section 80D for the A.Y.2025-26

	Particulars	₹	₹
(i)	Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii)	Contribution to CGHS	<u>6,000</u>	
		28,000	
	restricted to		25,000
(iii)	Mediclaime premium paid for mother, who is over 60 years of age	33,000	
(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	<u>20,000</u>	
		53,000	
	restricted to		<u>50,000</u>
			75,000

9. (i) Since the turnover of Nexus Tech Pvt. Ltd. exceeds ₹ 10 crores during the P.Y. 2023-24, it is required to deduct tax at source under section 194Q for paying any sum to a resident for purchase of goods of the value exceeding ₹ 50 lakhs in a previous year, at the time of payment or credit, whichever is earlier.

The rate of TDS would be 0.1% of sum exceeding ₹ 50 lakhs. In case of non-furnishing of PAN, TDS @5% would be deducted as per section 206AA. TDS liability in respect of the purchases made by Nexus Tech Pvt. Ltd. is as follows -

- **Purchase of raw material from Vendor A**

The threshold limit of ₹ 50 lakhs is exhausted in July at the time of credit; accordingly, tax would be deducted by Nexus Tech Pvt. Ltd. on ₹ 10 lakhs, being the sum exceeding ₹ 50 lakhs in July.

Since Vendor A has not provided his PAN to Nexus Tech Pvt. Ltd., tax at higher rate of 5% would be deducted.

Accordingly, the tax to be deducted by Nexus Tech Pvt. Ltd. would be ₹ 50,000.

- **Purchase of trading goods from Vendor B**

The threshold limit of ₹ 50 lakhs is per resident seller per buyer. On purchase of trading goods from Vendor B, no tax is required to be deducted since the threshold of ₹ 50 lakhs is not exhausted.

- (ii) Since the turnover of Mr. Sumit exceeds ₹ 1 crore during the P.Y. 2023-24 and the contract payments made to ABC Ltd. exceeds ₹ 1,00,000, the TDS provisions under section 194C would be attracted. The rate of TDS under section 194C is 2%. However, as per section 206AA, in case of non-furnishing of PAN, TDS @20% would be deducted.

In the present case, ABC Ltd. has not provided its PAN to Mr. Sumit, hence, TDS@20% is applicable on ₹ 5,40,000 being the amount excluding GST as GST is separately mentioned. The amount of tax to be deducted by Mr. Sumit would be ₹ 1,08,000.

10. Computation of total income of Mr. Shobhit for A.Y. 2025-26

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		57,25,000	
	Add: Items of expenditure not allowable while computing business income			
	- Depreciation as per books of accounts	27,50,000		

- Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset as first put to use not allowable as deduction. Accordingly, interest of ₹ 2,01,667 [₹ 55,00,000 x 11% x 4/12] has to be added back, since the same is debited to the profit and loss account]	2,01,667		
- Compensation on voluntary retirement [Only 1/5 th of the compensation paid is allowable in the current year. The remaining are allowable in the four succeeding years in equal installments. Hence, 4/5 th of ₹ 8 lakh debited to profit and loss account has to be added back]	6,40,000		
- Payment to M/s Kamal & Sons, a micro enterprise, for purchase of raw material [Allowable as	Nil		

	per section 43B(h) since payment was made to a micro enterprise and the same was within the time specified in the written agreement which is within 45 days from 15.3.2025]			
-	Payment to M/s Hitesh & Sons, a medium enterprise, for purchase of raw material [Allowable, as section 43B which mandates allowability of expenditure on actual payment basis is not applicable on medium enterprise and Mr. Shobhit follows mercantile system of accounting]	Nil		
-	Excess Contribution towards employees' pension scheme [Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction under section 36(1)(iva). Accordingly,	4,000	35,95,667	

disallowance is required to be made since contribution made is not within the prescribed limit. Disallowance under section 40A(9) = 2,00,000 (20% of ₹ 10 lakh) - 14% of ₹ 14,00,000 (₹ 10 lakh + ₹ 4 lakh) = ₹ 4,000]			
Less: Items of income to be treated separately under the respective head of income			93,20,667
- Income-tax refund including interest on refund of ₹ 3,850			13,850
Less: Allowable expenditure			93,06,817
Normal depreciation on			
(i) Opening WDV			
- Factory Building ₹ 6,45,000 @10%	64,500		
- Plant & Machinery ₹ 8,00,000 @15%	1,20,000		
(ii) Computer acquired on 31.8.2024 for ₹ 25,000 @40% [Since payment of ₹ 28,000 made in cash in a day to a person exceeds ₹ 10,000, the same	10,000		

	would not be included in the actual cost of computer. Hence, only actual cost of ₹ 25,000 is eligible for depreciation]			
	(iii) On Plant & Machinery acquired on 1.5.2024 for ₹ 57,01,667 @15% [₹ 55,00,000 <i>plus</i> ₹ 2,01,667, being the amount of interest on loan taken for purchase of this plant and machinery from the date on which capital was borrowed till the date on which asset as first put to use shall be capitalized]	8,55,250	10,49,750	
	Additional depreciation on Plant & Machinery acquired on 1.5.2024 for ₹ 57,01,667 @20%		11,40,333	
II	Capital Gains			71,16,734
	Sale consideration		1,00,00,000	
	Less: Indexed cost of acquisition		60,00,000	
	Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]		40,00,000	

	Less: Exemption under section 54 [Since ₹ 35 lakhs is invested in construction of house within the stipulated time limit.]	35,00,000	
	Capital gain of ₹ 25 lakhs in capital gain account scheme is not taxable in P.Y. 2024-25, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 35 lakhs invested in construction of house is eligible for exemption u/s 54 against the long-term capital gain on sale of house property during the P.Y.2024-25]		5,00,000
III	Income from Other Sources		
	Interest on income-tax refund		3,850
	Gross Total Income		76,20,584
	Less: Deduction under Chapter VI-A		
	Deduction under section 80C		
	- Life insurance premium of his father [Not allowable as deduction, since not covered within the meaning of term "person" in case of an individual, though he is dependent on him]	Nil	

- Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether Dependent or not falls within the meaning of term "Person" and the premium does not exceed 10% of the ₹ 5,00,000, being the sum assured]		45,000	45,000
Total Income			75,75,584
Total Income (Rounded off)			75,75,580

Computation of tax payable by Mr. Shobhit for A.Y. 2025-26

Particulars	₹	₹
Tax @20% on LTCG of ₹ 5 lakhs on sale of house property [Since the property is transferred before 23.7.2024]		1,00,000
Tax at slab rate on balance income of ₹ 70,75,580		
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 - ₹ 70,85,580 [@ 30% of ₹ 60,75,580]	18,22,674	
		19,35,174
		20,35,174
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,03,517
		22,38,961

Add: Health and education cess@4%	89,548
Tax liability	23,28,239
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000
Tax payable	22,28,239
Tax payable (Rounded off)	22,28,240

SECTION B: GOODS AND SERVICES TAX

- (1) All questions should be answered on the basis of the position of GST law as amended up to 28.02.2025.
- (2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.



QUESTIONS

Case Scenario

Rapidmove Logistics Pvt. Ltd. (hereinafter referred as RLPL), a registered company based in Pune, Maharashtra, is engaged in providing logistics and warehousing services, including transport of goods by road, cold storage warehousing for perishables, and consultancy services. It also deals in activities like storage of agricultural produce.

During the quarter April to June of current year, the company undertook following transactions:

- (i) Logistics services provided to M/s Hanuman Enterprises, registered in Amravati, Maharashtra for ₹ 28,00,000 and to M/s Shiv Industries, registered in Gwalior, Madhya Pradesh for ₹ 22,00,000.
- (ii) Services by way of warehousing of vegetables provided to M/s Safal Farms registered in Solapur, Maharashtra and M/s Fresh Veggies registered in Vapi, Gujarat for ₹ 8,00,000 and ₹ 4,00,000 respectively
- (iii) Sale of land to Mr. Amit in Pune for ₹ 1,20,00,000, excluding stamp duty of ₹ 2,50,000 (stamp duty is charged at 2%).

- (iv) It also received consultancy services from Mr. Shreyas, an architect in the month of March of the previous financial year, for ₹ 80,000 (exclusive of GST @18%), but input tax credit (ITC) was not availed until now. The related invoice was dated 20th March of previous financial year.
- (v) Supplied goods to its newly opened warehouse in Bengaluru Unit valued at ₹ 6,00,000 (exclusive of GST @18%). The company has paid the GST but, Bengaluru unit did not make payment against this invoice within 180 days.
- (vi) In addition to the aforesaid transactions, RLPL spent an amount of ₹ 5,00,000 on the procurement of certain goods which were distributed as part of the corporate social responsibility [CSR] expenditure required under the provisions of the Companies Act, 2013.

During the same quarter, it also received a subsidy of ₹ 40,000 from an environmental NGO for adopting green refrigeration technology and using the Electric Vehicles for logistics. This subsidy was linked to a performance metric (carbon reduction), not to the price of services.

The company has been compliant in filing periodic returns and statements on time during the year and has filed the annual return for preceding financial year on 15th October, of current financial year.

Multiple choice Questions

1. What would be the aggregate turnover of RLPL for the quarter April–June?
 - (a) ₹ 1,88,00,000
 - (b) ₹ 1,93,00,000
 - (c) ₹ 1,82,00,000
 - (d) ₹ 68,00,000
2. Which of the following options is correct regarding the availability of ITC to RLPL in respect of GST paid on the procurement of goods meant for the purpose of corporate social responsibility activity?
 - (a) The amount of ITC related to such procurement of goods is not available to RLPL.

- (b) The amount of ITC related to such procurement of goods is available to RLPL.
 - (c) The amount of ITC only to the extent of 50% of amount of such procurement of goods is available to RLPL.
 - (d) The amount of ITC shall be available to the registered person to whom such goods are distributed under CSR activity.
3. RLPL can claim ITC for the invoice dated 20th March of the previous FY upto _____ of the current financial year.
- (a) 30th September
 - (b) 31st December
 - (c) 15th October
 - (d) 30th November
4. Subsidy received from the environmental NGO is to be _____:
- (a) treated as part of consideration as it is received in connection with business
 - (b) excluded from transaction value as it is not directly linked to price of supply
 - (c) included in value, as it is consideration flown from third-party.
 - (d) included only if received before completion of supply
5. Which of the following statements is true in relation to the non-payment of consideration by the Bengaluru Unit to Pune office?
- (a) The Bengaluru Unit shall reverse the ITC availed on the goods received from Pune and also required to pay interest computed from the date of invoice till the date of reversal of ITC.
 - (b) The Bengaluru Unit shall reverse the ITC availed on the goods received from Pune and no interest shall be applicable.
 - (c) The restriction of 180 days for payment of consideration is not applicable in the present case.
 - (d) The Pune godown shall issue a credit note to Bengaluru Unit to reverse the supply.

6. Mr. Sagar Chaturvedi, registered under GST, is engaged in supplying multiple services (as discussed in the table below) in Mumbai, Maharashtra. He has furnished the following information with respect to the services supplied and received by him, during the month of April:

S. No.	Particulars	Amount (₹)
(i)	Services of transportation of students provided to Sanskar College offering the degree courses recognized by law.	90,000
(ii)	Outward supply of services of milling of paddy into rice	1,80,000
(iii)	Received the services by way of transportation of goods by road from Sindhu Transporters, an unregistered Goods Transport Agency of Nagpur, Maharashtra.	2,00,000
(iv)	Organized a business exhibition in Gujarat for Ramesh Industries, registered in Delhi.	20,00,000
(v)	Provided training at his Mumbai Office to employees of Aashiyana Interiors, a proprietorship concern of Rajasthan, which was not registered under GST.	1,00,000
(vi)	Recovery agent's services provided to a car dealer	30,000
(vii)	Legal services availed for official purpose from an individual advocate located in Gujarat	1,60,000
(ix)	Sponsored his business in a Cricket Match, organized by Mumbai Cricket Association, Maharashtra wherein he paid an amount of ₹ 1,50,000 to the association.	

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively for both inward and outward supply of services except the service of transportation of goods by GTA, on which the rates of CGST, SGST and IGST are 2.5%, 2.5% and 5% respectively.

- (ii) All inward and outward supplies are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing the ITC have been fulfilled.
- (iv) The turnover of Sagar was ₹ 1.8 crore in the previous financial year.
- (v) All the above mentioned supplies are intra-state, wherever the information for determining the place of supply is not provided.

Compute the net GST payable in cash, by Sagar for the month of April.

7. Regal Foundation of Commerce organized a business summit in Surat, Gujarat, in which all the startups were invited to pitch their business ideas. Pandit Jewels Pvt Ltd., registered in the State of Maharashtra, sponsored the summit and paid a sponsorship fee of ₹ 1,50,000 to Regal Foundation of Commerce.

You are required to determine, who is the person liable to pay tax if:

- (I) Regal Foundation of Commerce is a body corporate.
 - (II) Regal Foundation of Commerce is not a body corporate.
8. Examine whether GST is exempted in the following independent cases of supply of services:
- (i) Apex Facilities provided civil maintenance services for the upkeep of the Municipal Corporation of Delhi (MCD) head office building. Value of supply of goods constitute 20% while providing such maintenance services.
 - (ii) M/s Talreja & Talreja, a firm of advocates, provides legal services to the State Government for representation in the High Court.
 - (iii) BLF Mall, Noida provides services by way of vehicle parking to general public in the basement of mall.
 - (iv) Service provided by a private transport operator to Scholar Boys Higher Secondary School by way of transportation of students to and from the school.
9. Mr. Muttswami, an electronics dealer registered in Bangalore, Karnataka hired M/s Parivahan Logistics, an unregistered Good Transport Agency (GTA), to deliver his goods at the place of business of customer in Jaipur,

Rajasthan. M/s Parivahan Logistics charged ₹ 60,000 for the transportation of goods, which was paid by Muttswami on 4th January through account payee cheque. The delivery was also made on the same day.

M/s Parivahan Logistics did not raise the tax invoice for these services, since it was unregistered.

In this case, you are required to determine:

- (i) Person liable to issue the tax invoice
- (ii) Time limit for issuance of the tax invoice
- (iii) Time of supply of transportation services provided by GTA, assuming that tax invoice is issued on the last day on which it should have been issued.

10. Mascot Motors Private Limited (hereinafter referred as MMPL), a dealer of motor vehicles, registered in Udaipur, Rajasthan, has given an ex-works contract to M/s Ganesh Traders, registered in Ahmedabad, Gujarat for manufacturing 10 units of Pick-Up vans.

M/s Ganesh Traders manufactured the vans and handed them over to transporter on behalf of MMPL on 29th April and delivery on its part is complete at it's factory gate in Ahmedabad.

Further, it raised the invoice for all ten Pick-Up vans on same day. MMPL has recorded the invoice in it's books on the same day.

Price of the vans (ex-factory) was ₹ 10 lakh each (excluding GST @ 28%).

However, the vans were physically received by MMPL at its showroom in Udaipur, Rajasthan on 2nd May and payment was also made on the same day. After the payment, two Vans got damaged completely in a fire in the showroom in first week of May and therefore, they were written off in the books in the month of receipt by MMPL.

Discuss the availability of ITC on pick-up vans to MMPL with reference to the provisions under GST law. In which month, MMPL is eligible to avail ITC on the purchase of vans and how much ITC is available in respect of the vans?

**SUGGESTED ANSWERS/HINTS**

MCQ No.	Most Appropriate Answer
1.	(d)
2.	(a)
3.	(c)
4.	(b)
5.	(c)

6. Computation of GST payable

Particulars	Value of supply (₹)	CGST (₹)	SGST (₹)	IGST (₹)
GST payable under forward charge				
Services of transportation of students provided to Sanskar College [Services of transportation of students provided to an educational institution other than an institution providing pre-school education or education up to higher secondary school or equivalent, are not exempt.]	90,000	8,100 [90,000 x 9%]	8,100 [90,000 x 9%]	Nil
Services of milling of paddy into rice. [Milling of paddy into rice cannot be considered as an intermediate production process in relation to	1,80,000	16,200 [1,80,000 x 9%]	16,200 [1,80,000 x 9%]	Nil

cultivation of plants for food, fibre or other similar products or agricultural produce. Thus, it is not eligible for exemption.]				
Business exhibition organized for Ramesh Industries [Taxable since services by an organizer to any person in respect of a business exhibition are exempt only when such exhibition is held outside India. Further, it is an inter-State supply since the place of supply of services by way of organization of a cultural, artistic, sporting, scientific, educational or entertainment event including supply of services in relation to an exhibition in case of a registered recipient is location of such recipient, i.e. Delhi.]	20,00,000	Nil	Nil	3,60,000 [20,00,000 x 18%]
Training to employees of Aashiyana Interiors. [Taxable. Further, the place of supply of services in relation to training and performance appraisal provided to an unregistered person, shall be the location where the services are actually performed. Thus,	1,00,000	9,000 [1,00,000 x 9%]	9,000 [1,00,000 x 9%]	Nil

place of supply is Mumbai. Hence, it is an Intra-State supply.]				
Services provided as a recovery agent [Tax is payable under forward charge since recovery agent's services are being provided to a person other than banking company/financial institution/ non-banking financial company.]	30,000	2,700 [30,000 x 9%]	2,700 [30,000 x 9%]	Nil
Total GST payable under forward charge (A)		36,000	36,000	3,60,000
GST payable under reverse charge				
Services of transportation of goods received from unregistered GTA [It is intra-State supply since the place of supply of services by way of transportation of goods provided to a registered recipient is location of such recipient, i.e., Maharashtra.]	2,00,000	5,000 [2,00,000 x 2.5%]	5,000 [2,00,000 x 2.5%]	Nil
Legal services availed from an advocate [Legal services received by a business entity with aggregate turnover in the preceding financial year exceeding threshold limit	1,60,000	Nil	Nil	28,000 [1,60,000 x 18%]

for registration (₹ 20 lakh) are not exempt and tax on the same is payable under reverse charge. Further, place of supply of services provided to a registered person is the location of such person. Thus, place of supply is Mumbai. Resultantly, same is an inter-State supply as supplier is located in Gujarat.]				
Total GST payable under reverse charge (B)		5,000	5,000	28,000

Computation of total ITC available

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Services of transportation of goods received from unregistered GTA [ITC is available on said service since it is used in course or furtherance of business.]	2,00,000	5,000 [2,00,000 x 2.5%]	5,000 [2,00,000 x 2.5%]	Nil
ITC on sponsorship services (It is an intra-State supply, since place of supply is Mumbai, Maharashtra, being the location of recipient. ITC is available on services used in the course or furtherance of business.)	1,50,000	13,500 [1,50,000 x 9%]	13,500 [1,50,000 x 9%]	Nil

Legal services availed from an advocate [ITC is available on services used in the course or furtherance of business.]	1,60,000	Nil	Nil	28,000 [1,60,000 x 18%]
Total ITC available		18,500	18,500	28,000

Computation of net GST payable in cash

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable under forward charge	36,000	36,000	3,60,000
Less: ITC	<u>18,500</u>	<u>18,500</u>	<u>28,000</u>
	17,500	17,500	3,32,000
Add: GST payable under reverse charge in cash	<u>5,000</u>	<u>5,000</u>	<u>28,000</u>
[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.]			
Net GST payable in cash	22,500	22,500	3,60,000

7. (i) In case of services provided by way of sponsorship service to any body corporate or partnership firm by any person other than a body corporate, the recipient is liable to pay tax under reverse charge mechanism.

Since Regal Foundation of Commerce, the supplier, is a body corporate in this case, so reverse charge provisions are not applicable in this case.

Thus, Regal Foundation of Commerce is required to pay tax under forward charge on the supply of the sponsorship services.

- (ii) In case of services provided by way of sponsorship to any body corporate or partnership firm by any person other than a body

corporate, the recipient is liable to pay tax under reverse charge mechanism.

Since Regal Foundation of Commerce, the supplier, is not a body corporate in this case, so reverse charge provisions are applicable in this case.

Accordingly, Pandit Jewels Pvt Ltd is required to pay tax under the reverse charge on sponsorship fees paid to Regal Foundation of Commerce.

8. (i) If the composite supply of goods and services provided to local authority, in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply, by way of any activity in relation to any function entrusted to a Municipality under article 243W of the Constitution, then it would be exempt under GST.

Further, it has been clarified vide a Circular that civil maintenance services received for the upkeep of the MCD office are not in relation to any function entrusted under Article 243W of the Constitution and thus not covered under the exemption. Therefore, such civil maintenance services are not exempt and hence taxable.

- (ii) Services provided by a partnership firm of advocates to the Central Government, State Government, Union territory, local authority, Governmental Authority or Government Entity are exempted from GST. Thus, legal services provided by Talreja & Talreja, a firm of advocates, to the State Government for representation before the High Court are exempted from GST.
- (iii) Services provided by way of vehicle parking to general public are not specifically exempted from GST. Therefore, GST is payable on the same.
- (iv) Services by way of transportation of students provided to an educational institution which is engaged in providing services by way of pre-school education and education up to higher secondary school or equivalent are exempted from GST. Therefore, in the given case the services provided by private transport operator are exempt.

9. Supply of services by a Goods Transport Agency (GTA) in respect of transportation of goods by road to any person registered under the GST is taxable under reverse charge mechanism in terms of section 9(3) of the CGST Act, 2017. Thus, Mr. Muttswami, being the registered recipient is liable to pay tax under reverse charge mechanism in respect of services received from unregistered GTA.

(i) Person liable to issue the tax invoice

As per section 31(3)(f) of the CGST Act, 2017, a registered person who is liable to pay tax under reverse charge mechanism under section 9(3)/ 9(4), shall within the period as may be prescribed issue an invoice in respect of goods or services or both received by him from the supplier who is not registered on the date of receipt of goods or services or both.

Since, M/s Parivahan Logistics is an unregistered GTA, Mr. Muttswami, being liable to pay the tax under reverse charge mechanism under section 9(3) is required to issue the tax invoice.

(ii) Time limit for issuance of the tax invoice

Rule 47A of the CGST Rules, 2017 provides that where an invoice referred to in rule 46 is required to be issued under section 31(3)(f) by a registered person, who is liable to pay tax under section 9(3)/ 9(4), he shall issue the said invoice within a period of 30 days from the date of receipt of the said supply of goods and/or services, as the case may be.

Thus, Mr. Muttswami is required to issue a tax invoice till 3rd February (i.e. within 30 days of receipt of services).

(iii) Time of supply of transportation services supplied by GTA.

As per section 13(3) of the CGST Act, 2017, in case of supplies in respect of which tax is paid or liable to be paid on reverse charge basis, the time of supply shall be the earlier of the following dates, namely:—

- (a) the date of payment as entered in the books of account of the recipient or the date on which the payment is debited in his bank account, whichever is earlier; or

- (b) the date immediately following sixty days from the date of issue of invoice or any other document, by whatever name called, in lieu thereof by the supplier, in cases where invoice is required to be issued by the supplier, or
- (c) the date of issue of invoice by the recipient, in cases where invoice is to be issued by the recipient.

Since, in this case the reverse charge mechanism is applicable on receipt of services provided by GTA and invoice is issued by recipient, time of supply would be earliest of the following date:

- (a) Date of payment i.e. 4th January
- (b) The date of issue of invoice by the recipient i.e. 3rd February.

So, the time of supply in this case will be 4th January.

- 10.** Section 16(2)(b) of the CGST Act, 2017 provides that no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless he has received the goods or services or both.

Explanation to section 16(2)(b) of the CGST Act, 2017 provides that it shall be deemed that the registered person has received the goods or, as the case may be, services, where the goods are delivered by the supplier to a recipient or any other person on the direction of such registered person, whether acting as an agent or otherwise, before or during movement of goods, either by way of transfer of documents of title to goods or otherwise.

Further, it has been clarified vide a circular that in case of Ex-works contract, the property in the goods can be considered to have been passed on to the dealer by the Original Equipment Manufacturer (OEM) upon handing over of the said goods to the transporter at his factory gate, meaning thereby that the goods can be considered to have been delivered to the registered person (the dealer), through the transporter, by the supplier (the OEM) at his factory gate and the supply of the said goods can be considered to have fructified at the factory gate of the OEM, even though the goods may be physically received by the registered person (the dealer) after the transit period.

In the given case, since the contract between M/s Ganesh Traders (OEM) and MMPL (dealer) is ex-works, pick up vans are considered to be received by MMPL on 29th April i.e. the date on which the vans are handed over to the transporter, even though they were physically received in the month of May.

So, initially on 29th April, full ITC of ₹28 lakh [$₹10 \text{ lakh} \times 10 \text{ vans} \times 28\%$] can be availed while filing the return of the month of April.

Subsequently, after the receipt of vans in the showroom, 2 vans were destroyed due to fire and written off in the books.

So, ITC in respect of such vans, which was already availed has to be reversed while filing the return of the next month-May, since ITC on the goods, which are destroyed is not available in accordance with section 17(5) of the CGST Act, 2017.

The Amount of ITC which has to be reversed in the return of next month is = ₹5.6 lakh [$₹10 \text{ lakh} \times 2 \text{ vans} \times 28\%$].

**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for
September, 2025 Examination**

Intermediate Level

Paper 2: Corporate and Other Laws

The provisions of the Companies Act, 2013 and the Limited Liability Partnership Act, 2008 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs, and the laws covered under Part II: Other Laws, as amended by concerned authority, including significant notifications and circulars issued up to 28.02.2025 are applicable for September 2025 examination.

The Study Material (July 2024 edition) has to be read along with the 'Relevant Legislative amendments for September 2025 examinations' for the period of 01.07.2024 to 28.02.2025.

Paper 3: Taxation

Section A: Income-tax Law

The provisions of income-tax law, as amended by **the Finance (No. 2) Act, 2024**, including significant circulars, notifications, press releases issued and legislative amendments made **upto 28.2.2025**, are applicable for September, 2025 examination. The relevant assessment year for income-tax is **A.Y. 2025-26**.

The October 2024 edition of the Study Material for Intermediate Paper 3A, based on the provisions of income-tax law, as amended by the Finance (No. 2) Act, 2024 and Notifications and Circulars issued upto 30th September, 2024, is relevant for September, 2025 examination. Considering that no significant Notifications and Circulars are issued between 1st October 2024 and 28th February, 2025, there is no statutory update for September 2025 examination.

Note –The Study Guidelines specifying the list of topic-wise exclusions from the scope of syllabus and topic-wise inclusion of clauses of section 10 in the syllabus is webhosted at <https://resource.cdn.icai.org/84185bos67885.pdf>.

Section B: Goods and Services Tax

Applicability of the GST law

The provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 28.02.2025, are applicable for September 2025 examination.

The amendments made by the Annual Union Finance Acts in the CGST Act, 2017 and IGST Act, 2017 are made effective from a date notified subsequently. Thus, those amendments made by the relevant Finance Acts which have become effective till 28.02.2025 are applicable for September 2025 examination. Accordingly, all the amendments made by the Finance (No. 2) Act, 2024 are applicable for September 2025 examination since they have become effective till 28.02.2025.

The Study Guidelines given below specify the exclusions from the syllabus for September 2025 examination.

List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions (Provisions which are excluded from the corresponding topic of the syllabus)
2(iii)	Charge of tax including reverse charge	CGST Act, 2017 (i) Rate of tax prescribed for supply of goods* (ii) Rate of tax prescribed for supply of services* (iii) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3) IGST Act, 2017 (i) Rate of tax prescribed for supply of goods (ii) Rate of tax prescribed for supply of services (iii) Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3)

2(iv)	Exemption from tax	CGST Act, 2017 & IGST Act, 2017 Exemptions for supply of goods
3(ii)	Basic concepts of place of supply	IGST Act, 2017 & IGST Rules, 2017 (i) Place of supply of goods imported into, or exported from India (ii) Place of supply of services where location of supplier or location of recipient is outside India (iii) Special provision for payment of tax by a supplier of online information and database access or retrieval [OIDAR] services (iv) Refund of integrated tax paid on supply of goods to tourist leaving India (v) Special provision for specified actionable claims supplied by a person located outside taxable territory
3(iii)	Basic concepts of time of supply	CGST Act, 2017 & CGST Rules, 2017 Provisions relating to change in rate of tax in respect of supply of goods or services
3(iv)	Basic concepts of value of supply	CGST Act, 2017 & CGST Rules, 2017 Chapter IV: Determination of Value of Supply [Rules 27-35] of CGST Rules, 2017
3(v)	Basic concepts of input tax credit	CGST Act, 2017 read with CGST Rules, 2017 (i) Claim of credit by a banking company or a financial institution [Rule 38] (ii) Manner of determination of input tax credit in respect of inputs or input services and reversal thereof [Rule 42] (iii) Manner of determination of input tax credit in respect of capital goods and reversal thereof in certain cases [Rule 43]

		(iv) Input tax credit provisions in respect of inputs and capital goods sent for job work. (v) Input tax credit provisions relating to distribution of credit by Input Service Distributor [ISD] (vi) Manner of recovery of credit distributed in excess (vii) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
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*Rates specified for computing the tax payable under composition levy are included in the syllabus.

Note: The syllabus includes select provisions of the CGST Act, 2017 and IGST Act, 2017 and not the entire CGST Act, 2017 and the IGST Act, 2017. The provisions covered in any topic(s) of the syllabus which are related to or correspond to the topics not covered in the syllabus shall also be excluded.

In the above table, in respect of the topics of the syllabus specified in column (2) the related exclusion is given in column (3). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded. For example, since provisions relating to ISD are excluded from the topics "Input tax credit", the provisions relating to (i) registration of ISD and (ii) filing of returns by an ISD are also excluded from the topics "Registration" and "Returns" respectively.

The entire content included in the October 2024 edition of the Study Material (except where it is expressly mentioned that the content is not relevant for the examination) and the Statutory Update for September 2025 examination shall ALONE be relevant for the said examination. The amendments in the GST law made after the issuance of the Study Material - to the extent covered in the Statutory Update for September 2025 examination shall only be relevant for the said examination.