

Paper 3 : Advanced Auditing and Professional Ethics (Old course)

1 The basic assumption underlying the use of analytical procedures is:

- (a) It helps the auditor to study relationship among elements of financial information
- (b) Relationship among data exist and continue in the absence of known condition to the contrary
- (c) Analytical procedures will not be able to detect unusual relationships
- (d) None of the above

2. Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion

- (a) Right and obligations
- (b) Valuation
- (c) Completeness
- (d) Existence

3 The auditor shall express _____ opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements

- (a) Adverse
- (b) Qualified
- (c) Disclaimer of opinion
- (d) clean

4 The agreed terms of the audit engagement shall be recorded in an audit engagement letter which shall include the following except-

- (a) Responsibilities of the auditor
- (b) Description of methods to be followed for obtaining audit evidence
- (c) Responsibilities of management
- (d) Objective and scope of the audit of the financial statements

5 The measure of the quality of audit evidence about its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based is:

- (a) Sufficiency of audit evidence
- (b) Appropriateness of audit evidence
- (c) Accounting estimates

(d) Reasonableness of audit evidence

6 The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences.

- (a) Objectivity
- (b) Independence
- (c) Confidentiality
- (d) Integrity

7 Which of the following company is not exempted from reporting under CARO, 2016?

- (a) Banking company.
- (b) Insurance company.
- (c) Company licensed to operate under section 8 of the Companies Act, 2013.
- (d) Private limited company having paid up capital of Rs. 5 crore.

8 Section 144 of the Companies Act, 2013 does not excludes the statutory auditor of the company to render the services of -

- (a) Investment advisory
- (b) Investment banking
- (c) Branch auditor
- (d) Actuarial

9 As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence?

- (a) Friend of a family member of a person who has the authority and responsibility for planning.
- (b) Holding debentures in the entity.
- (c) The entity's holding of debentures in other entities.
- (d) The entity's holding of equity in other entities.

10. When does an auditor shall modify the opinion in the auditor's report?

- (a) When, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.
- (b) When, unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

- (c) (a) and (b) both.
- (d) Either (a) or (b).

11 For a given level of audit risk, the acceptable level of detection risk bears _____ relationship to the assessed risks of material misstatement at the assertion level.

- (a) direct.
- (b) Inverse
- (c) Either (a) or (b)
- (d) none of the above

12 Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities:

- (a) Authorization.
- (b) Performance reviews.
- (c) Information processing.
- (d) All of the above

13 If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-

- (a) Withdraw from the engagement immediately.
- (b) Report to Audit team regarding withdrawal.
- (c) Determine the professional and legal responsibilities applicable in the circumstances.
- (d) Ask the management for his withdrawal.

14 In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained _____ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

- (a) reasonable assurance
- (b) absolute assurance
- (c) Limited assurance
- (d) None of the above

15 When is evidential matter, generally, considered sufficient in case of stock exchange member audit?

- (a) When it constitutes entire population
- (b) When it is objective and relevant
- (c) When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
- (d) When auditor collects and evaluates it independently

16 The scope of the audit of Depositories including reference to the pronouncements of the ICAI, which the auditor adheres to, generally is communicated to the client in the

- i) auditor's report
- ii) engagement letter
- iii) representation letter

- (a) only (i)
- (b) Both (i) and (ii)
- (c) Both (i) and (iii)
- (d) All of the above

17. Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement?

- i) Information about integrity of management
- ii) Disagreement with management concerning auditing procedures
- iii) Review of internal control system.
- iv) Organisation structure

- (a) (i) and (ii)
- (b) (ii) and (iii)
- (c) (i) , (ii) and (iii)
- (d) (i) and (iii)

18. In an investigation relating to possible misappropriation of cash, the cashier says that every day the cash is counted and is reviewed by the Finance Head. Your specimen review indicates that the daily cash summary was not signed off by of the Finance Head. In this situation you should:

- (a) conclude that the cashier is not telling truth
- (b) consider extending investigation procedures like corroborative enquiry with the Finance Head, review of appropriate daily cash summaries etc.
- (c) conclude that the Finance Head is not a responsible person
- (d) conclude that daily cash summary is not relevant for the investigation

19. Current period adjustments are those adjustments that are made:

- (a) only on the first occasion of the preparation and presentation of consolidated financial statements
- (b) only on the first occasion of the audit of consolidated financial statements
- (c) in the accounting period for which the consolidation of financial statements is done
- (d) None of the above

20 Which of the following best suits the description – “The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls.”

- (a) Inherent Risk
- (b) Detection Risk
- (c) Control Risk
- (d) None of the above

21 CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct .

- (a) Clause (6) of Part I of the First Schedule
- (b) Clause 2 of Part I of the Second Schedule
- (c) Clause 12 of Part I of the First Schedule
- (d) Clause 2 of Part IV of the First Schedule

22. As an auditor appointed under section 44AB of the Income Tax Act, 1961, under which clause of Form 3CD, you will report for amounts deemed to be profits and gains under section 32AC, 33AB or 33ABA or 33AC

- (a) clause 24
- (b) clause 40
- (c) clauses 31
- (d) clause 23

23. As per CARO, 2016, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.

- (a) Under Clause (xi) of paragraph 3 of the CARO, 2016,

- (b) Under Clause (xvi) of paragraph 3 of the CARO, 2016,
- (c) Under Clause (xv) of paragraph 3 of the CARO, 2016,
- (d) Under Clause (xiv) of paragraph 3 of the CARO, 2016,

24. As per Clause (i)(c) of Paragraph 3 of the CARO, 2016, the auditor is required to report on :

- (a) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.
- (b) whether the company has entered into any non-cash transactions with directors or persons connected with him
- (c) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
- (d) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

25. LM Ltd. had obtained a Term Loan of rupees 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. Under which clause of CARO 2016 the auditor is required to report

- (a) Under Clause (viii) of paragraph 3 of the CARO, 2016,
- (b) Under Clause (xi) of paragraph 3 of the CARO, 2016,
- (c) Under Clause (x) of paragraph 3 of the CARO, 2016,
- (d) Under Clause (ix) of paragraph 3 of the CARO, 2016,

26. NMP Ltd is in the business of retail and has been suffering losses. The turnover of the company has been same over the last 3-5 years. The company has Oracle as its ERP package. The internal auditor of the company observed that there is no process to review the supplier master on a periodic basis to identify the cases of incorrect updation / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle.

There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier's address. Payments valuing INR 27 crores have been made to such suppliers.

Management explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and, post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.

- (a) Management responses look reasonable and this matter should be dropped.
- (b) The matter is more of related to hygiene and may not have any impact on the financial reporting and hence should be ignored.
- (c) Internal auditor need to report this matter.
- (d) Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.

27. DPP Ltd is in the business of software and is in growing phase. The company's turnover has been increasing year on year and profit margins are good. The company is also planning IPO in next 2-3 years depending on the market assessment at that point of time.

It was observed by the internal auditors of the company that it does not have a documented Segregation of Duty (SOD) Matrix. Access controls were tested on basis of leading practices and following observations were identified:

- Users apart from Finance & Accounts team were having access to critical financial transactions.
- Users apart from Quality department were having access to Quality Clearance transaction for raw material and finished goods.
- Multiple users having access to Purchase Order Approval though it should be confined to HODs/Purchase Heads.

Management of the company explained to the auditor that the company is new and this may be required for a well established company. Please advise.

- (a) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. Hence there should be a proper SOD matrix.
- (b) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. There should be a process of SOD though it is not necessary to document that.
- (c) Management is right and accordingly it is not relevant for the internal auditor.
- (d) Since currently the operations of the company are running smoothly, there is no need for complicating the internal business environment by setting up SOD matrix.

28. KSHTZ Ltd, listed company, is in the business of stainless steel and is more than 50 years old. The company's turnover is INR 11000 crores and has good profit margins which have been improving over the last 2 years. The company is also planning to raise funds in another 5-6 months. The company has SAP as its ERP package.

Recently there has been a change in the internal audit team. The new internal auditors observed that there have not been any approved policies and procedure in place in their audit period from 1 April 2018 to 30 September 2018. For e.g.

- Information Security Policy and Procedure
- Change Management Policy

- User Access Management Policy.

Also the policies and procedures do not have any version control, owner and review details, etc.

Management of the company explained to the auditor that the company does not require this and hence this point should be ignored. Please advise.

- Absence of well defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees and hence there should be approved policies and procedures in place.
- Absence of well defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees. There should be a process to follow policies and procedures though it is not necessary to document that.
- Management is right and accordingly it is not relevant for the internal auditor.
- Absence of well defined and approved policies and procedures has not impacted the company till date and if the management has reasons not to keep this then the same should not be considered by the internal auditor.

29. ACE Pvt Ltd is a large company and has diverse operations. The company is planning to get listed to raise funds. Over the last years, the company did not use much of technology and with the changing times, the management has also identified the need to bring mechanisms in place to improve upon the use of technology. The internal auditors of the company while review of Business Continuity Planning/ Disaster Recovery Plans observed that the Identified Disaster Recovery Site of the company was in the same seismic zone as the Primary Site. Therefore the effectiveness of the Disaster Recovery (DR) Plan was not verified.

The management discussed this matter with the internal audit team and explained that the present DR plan is to protect against hardware failure and building level exposure. They will plan for city level DR along with Annual Business Plan in another year.

Please suggest which one of the following options is correct.

- DR plan is not of much relevance and should not be focused upon by the internal auditor in his report.
- DR plan is an outdated plan and in today's scenario it is not required. Hence internal auditor should drop this.
- Absence of Disaster Recovery Site in different seismic zone might lead to failed or delayed recovery of business operations in an event of natural disaster. It is important for the management to plan this and hence internal auditor should also report this.
- Since the management has a plan for DR in near future this matter is not relevant to be reported.

30. ASOP Ltd is in the business of trading and manufacturing of FMCG. The turnover of the company has been increasing, however, the company has not been able to maintain its margins constant which are declining. The internal auditors of the company raised observations on the sales schemes of the company. As per the SOP, all schemes are required to be approved by the CEO of the company. However, per process it was observed that all schemes were approved by Chief Sales and Marketing Officer (CSMO). Review of sample 89 support schemes for the months

of May 2018 and June 2018 highlighted that 19% (i.e. 17 schemes) were not approved by the CSMO.

Management replied that there is a need for revision of SOP to reflect current paradigm. They shall amend the SOP to reflect the same. Please advise how should these matters be dealt by the internal auditors?

- (a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.
- (b) SOPs are not aligned to on-ground practices followed by concerned officials. SOPs should be updated and till then there should be a mechanism to follow the existing SOP.
- (c) SOPs are not aligned to on-ground practices followed by concerned officials and the same should be reported by the internal auditor.
- (d) Internal auditor should look at the materiality and basis that can ignore this as this will not have much impact.

31. BCP Ltd is in the business of manufacturing of cranes. It's a wholly owned subsidiary of a Chinese company and follows policies and procedures of the parent company. The company's annual turnover is INR 1000 crores. The company operates through dealers in India for making sales and pays incentives to them on the basis of delivery based schemes and other schemes which are introduced from time to time.

It was observed by the internal auditors of the company that incentives amounting to INR 10 crores were paid to dealers on account of delivery based schemes for the month of October 2018. Review of cranes installations for the same period highlighted that incentive amounting to INR 30 lakhs had been paid against invalid claims. This was primarily because of absence of verification of the delivery claims with the installation data.

Management replied that disbursement basis 100% verified installations has been defined as per the process. Revision in process has been done to prevent inordinate delays in reimbursements to the dealers. Please advise how should these matters be dealt by the internal auditors?

- (a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.
- (b) The impact of the matter is not significant and hence the same should be dropped.
- (c) Incentive paid against non-genuine claims bear financial implications for the Company. Verified installation data should be taken for considering incentive payout. This matter should be highlighted by the internal auditor in his report.
- (d) Internal auditor should ask the management to take corrective action and basis that drop this point as this is matter which is of financial implication which needs to be considered by the statutory auditors of the company.

32. PRP Ltd is a service company and is in the business of manpower consultancy. The company also has some manufacturing operations based out of Orissa. The annual turnover of the company is INR 1500 crores. The employee base of the company is very big. Please advise what internal audit procedures should be considered by the internal audit team for the audit of labour cost vis-à-vis wages.

- i. Comparing the time booked in the booking sheets with clock cards on a sample basis.

- ii. For a Piece rated wage job: a. In case of an in-process job, checking that the output booked in the booking sheet is in line with the standard output possible in the stated time. In case of a major variance, enquiring into its justification and authenticity. b. In case of a finished job, checking the output booked in the booking sheet with the actual output generated for the period as per the production sheet. c. In case of variances, enquiring into the same.
 - iii. In case of a person doing more than one piece - rated job during the period, checking that: Total Time Booked – Overtime Hours = Normal Hours Available in the Period.
 - iv. Test checking the following with the master lists: a. Grade booked b. Operator code c. Job code.
 - v. Average Earning Job a. Verifying on a sample basis that the job categorised as “average earning” job does not have any piece rate as per the master file. b. Comparing the standard time required for output booked as per the master file with the actual time booked. In case of a major variance, enquiring into its justification and authenticity. c. Test checking the calculation of wages as per the laid down formula for arithmetical accuracy.
- (a) i, ii, iii, iv and v.
 - (b) i, ii, iii and iv.
 - (c) i, iii, iv and v.
 - (d) i, ii, iii and v.

33. OQR Ltd is in the business of manufacturing of tractors and cranes. The company has a policy to provide after sales services to the customers in respect of its products. Please advise what internal audit procedures should be considered by the internal audit team for the audit of after sales service.

- i. Assess replacement trends, nature of failures and replacement policies.
 - ii. Examine the percentage of replacements of manufacturing defects vis-à-vis off-take.
 - iii. Examine which type of products/models has a higher failure record and why.
 - iv. Check whether any particular dealer's failure percentage vis-à-vis his turnover higher than the norm. If so, why.
 - v. Check whether there are adequate technical audit on awards of replacement.
 - vi. Evaluate the effectiveness of after-sales service with regard to its scope and consumer satisfaction. Is this service prompt and timely?
- (a) i, ii, iii, iv and vi.
 - (b) i, iii, iv, v and iv.
 - (c) i, ii, iii, iv and v.
 - (d) i, ii, iii, iv, v and vi.

34. SX Ltd is in the business of steel manufacturing having a turnover of INR 10,100 crores. The company has many plants. Each plant has a canteen and some income also gets generated in the canteen every year.

Being the internal auditor what internal audit procedures may be applied to audit the canteen income?

- i. Check the records maintained for the canteen operations to support all financial transactions.

- ii. Review the agreements and contracts in case the canteen is run by an outside party.
- iii. Compliance with laws and regulations applicable for operation of canteen - The Prevention of Food Adulteration Act & Rules, 1954, The Shops and Establishment Act, FEMA, GST, Companies Act, etc.
- iv. Verify leakages that may take place, e.g., by way of non-deductions from staff or excessive consumption of food in the mess, despite fixed menus which are helpful in providing some measurement of the likely consumption of food articles.

Which of the above mentioned procedures would be relevant?

- (a) i, ii, iii and iv.
- (b) i, ii and iii.
- (c) i, ii and iv.
- (d) i, iii and iv.

35. TPL Pvt Ltd is in the business of software and consultancy services. The annual turnover of the company is INR 899 crores and profits are INR 199 crores. The company is planning to get listed in the overseas market within a year. If that doesn't happen then the company may look for funding through private placement.

For some projects the company receives grants from government. These projects run upto 5-10 years. XYZ & Co LLP is the internal auditor of the company. Please advise what internal audit procedures should be considered by the internal audit team for the audit of grants received.

- i. Check the donations received with the copies of receipts.
 - ii. Check sanction letters for any conditions attached with the donations.
 - iii. Examine the statements submitted for utilisation of grant.
 - iv. Verify the grants received from the Government or other authorities with reference to all the correspondences.
 - v. Verify all the bank statements of the company to trace the grants received and its utilization.
- (a) i, ii, iii, iv and v.
 - (b) i, ii, iii and iv.
 - (c) i, iii, iv and v.
 - (d) i, ii, iii and v.

36. ONZ Ltd is in the business of trading of consumer equipments. The company's turnover is INR 347 crores. The company has not been doing well over the last few years due to which its profitability has gone down significantly.

The company charges cartage/freight from its customers. Because there is a huge cost incurred in this respect, the company ensures that this amount is recovered on time.

During the performance of the internal audit procedures, the internal auditors of the company found that in some cases freight was charged in the bills manually, rather than through the automated system of generating an invoice. Internal auditor raised this point to the management. The management replied that it happens only in exceptional cases that the freight is charged manually on automated generated invoice.

How would you deal with this as an auditor?

- (a) Internal auditor should report this matter.

- (b) Internal auditor should discuss with management about way forward and drop this point.
- (c) Internal audit observation is not right.
- (d) Internal auditor should ignore on the grounds of materiality.

37. MNO Ltd borrowed an amount of INR 5 crores from a financial institution during the year. The company had existing borrowings of INR 1800 crores from various banks. However, the company took loan from a financial institution for the first time.

The rate of interest charged on the new loan was based on market rate of interest and there was no security for this loan. During the course of the internal audit, internal auditor could not find the borrowing agreement for the new loan and raised this point with the management. The management explained that new loan was required for a special purpose for which all other documents are available for auditor to verify – disbursement proof in the bank statements, repayments. However, the agreement was not prepared because the person who arranged the loan from financial institution was known to the company and basis verbal understanding this has been done. Please advise internal auditor.

- (a) Internal auditor should report this matter as this can be a serious deficiency.
- (b) Because all other proofs are available, internal auditor should ignore this point.
- (c) Internal auditor should report this matter to Reserve Bank of India.
- (d) Considering the insignificant amount of this new loan as compared to total borrowings of the company, this may be ignored by the internal auditor.

38. AAS Ltd is in the business of fast food chains. During the internal audit of accruals/ expenses of the company, the internal audit team observed that for some of the entries passed the narration was wrongly written as if the expense is related to the travelling expense. The vouchers were passed by the finance personnel of the company but no review mechanism was seen for this. Management explained that there is a review mechanism but this is only about narration of expenses which should not be relevant for the internal auditor. How should the internal auditor deal with this matter?

- (a) The Company should perform the review of entries to check such cases and same thing should be reported by the internal auditor.
- (b) The Company's management seems reasonable here.
- (c) This matter should be considered on the basis of materiality.
- (d) Internal auditor should further investigate as this is indicative of fraud.

39. Medivision Industries designs and manufactures spectacles. Medivision's year end was 31 March 2018 and its draft financial statements show a profit before tax of Rs.60 lakh. The fieldwork stage for this audit has largely been completed but there are few outstanding issues.

On 1 January 2018, Medivision began the commercial production of a new range of lightweight frames which have been proven to keep their shape regardless as to how roughly they are treated. Up to 31 December 2017, the company had correctly capitalised development costs of Rs.45 lakh relating to this project. The directors believe that the new frames will have a product life of three years. The financial statements show development costs at a carrying amount of Rs.45 lakh. Medivision's accounting policy states that it amortises intangible assets on a straight-line basis.

The auditor's report for Medivision is due to be signed in the next week or so, and you have been unable to resolve a disagreement with the directors concerning the amortisation of the development costs. The directors have refused to include any amortisation on the basis that sales of the product have not yet commenced.

Which of the following options correctly summarises the impact on the auditor's report if the issue remains unresolved?

- (a) The auditor to provide an 'Unmodified opinion', since the directors are correct not to include any amortisation on the basis that sales of the product have not yet commenced.
- (b) The auditor to provide an 'Unmodified opinion' with emphasis of matter paragraph about the amortisation charge on the capitalised development costs.
- (c) The auditor to provide a Modified opinion - Adverse opinion since having obtained sufficient appropriate evidence, concludes that the misstatement is both material and pervasive.
- (d) The auditor to provide a Modified opinion – Qualified opinion due to material misstatement of not recording the amortization charge on the capitalised development costs, which is material but not pervasive.

40 You are an audit supervisor of Swanminathan & Associates and are currently planning the audit of your client, Zonal Co which manufactures elevators. Its year end is 31 March 2018 and the forecast profit before tax is Rs 25.26 Lakhs.

At the beginning of the year, Zonal purchased a patent for Rs. 5.3 lakhs which gives them the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, the entity borrowed Rs. 4.5 lakhs from the bank which is repayable over five years.

Which of the following is a response to the audit risk identified by you in planning the audit for the reporting year?

- (a) The audit team need to agree the purchase price to supporting documentation and to confirm the useful life is five years. Recalculate the amortisation charge to ensure the accuracy of the charge and that the intangible is correctly valued at the year end.
- (b) The company has borrowed Rs.4.5 lakhs from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities in order to ensure correct disclosure.
- (c) In accordance with Ind AS 38 Intangible Assets, the patent should be included as an intangible asset and amortised over its five-year life.
- (d) Also, as the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss leading to understated finance costs and overstated profit.

41. Teamsg International Co is a manufacturer of electrical equipment. It has factories across the country and its customer base includes retailers as well as individuals, to whom direct sales are made through their website. The company's year-end is 31 March 2018. You are an audit supervisor of Suraj & Co and are currently reviewing documentation of Teamsg's internal control in preparation for the interim audit.

In the past six months Teamsg has changed part of its manufacturing process and as a result some new equipment has been purchased, however, there are considerable levels of plant and equipment which are now surplus to requirement. Purchase requisitions for all new equipment have been authorised by production supervisors and little has been done to reduce the surplus of old equipment.

Which of the following control can be recommended to address the internal control deficiency in the respect of the acquisition of new equipment and treatment of the old equipment.

- (a). Regular review of the data on the unused equipment on the master file by a responsible official and the review to be evidenced.
- (b). Supplier statement reconciliations should be performed monthly for all suppliers and these should be reviewed by a responsible official.
- (c). Capital expenditure authorisation levels to be established. Production supervisors should only be able to authorise low value items, any high value items should be authorised by the board.
- (d). Observe the review process by senior factory personnel, identifying the treatment of any old equipment.

42. You are a manager in the audit department of Narang & Co, and you are dealing with several ethical and professional matters raised at recent management meetings, all of which relate to audit clients of your firm:

One of your client Bernwood Co has a year ending 31 March 2018. During this year, the company established a pension plan for its employees, and this year end the company will be recognising for the first time a pension deficit on the balance sheet, in accordance with Ind AS 19 Employee Benefits. The finance director of Bernwood Co has contacted the audit engagement partner, asking if your firm can provide an actuarial valuation service in respect of the amount recognised.

Which of the following options needs to be considered by the audit engagement partner?

- (a) The issue is whether there is a self-review threat, as the valuation of the amount recognised would be recorded in the financial statements. The audit partner should decline the work of valuation service.
- (b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such a valuation service. The audit partner should decline since not professionally qualified to provide the valuation service.
- (c) Narang & Co. needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, performing a second partner review, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the valuation service.
- (d) The audit partner could go ahead with the valuation service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level.

43. PR Co. designs and manufactures specialised furniture for offices in and around the city of Mumbai. The revenue has been gradually increasing over the last few years. The main concern for PR Co is finding credit-worthy customers who will make the payment on due dates. You are assigned as the audit team member to test the controls in sales and purchase system of the entity. The year end of the entity is 31 March 2018. One of the control objectives of the sales system of PR Co is to ensure that goods and services are sold to credit-worthy customers.

Which of the following control activities would assist the entity in achieving this objective?

- (a) All sales orders above Rs.10 lakh is based on authorised price lists.
- (b) Credit limits for all the customers are checked before sales orders are accepted.
- (c) Overdue debts are chased each month by the credit controller.

- (d) The aged-debt listing is reviewed by the finance director of PR Co on a monthly basis.

44. You are an audit manager of DC & Co and you are currently responsible for the audit of Beautypal Co, a company which develops and manufactures health and beauty products and distributes these to wholesale customers. Its draft profit before tax is Rs.43 lakhs and total assets are Rs.38 lakhs for the financial year ended 31 March 2018. The final audit is due to commence shortly, and the following matter has been brought to your attention:

Beautypal Co has a large portfolio of property, plant and equipment (PPE). In January 2018, the company carried out a full review of all its PPE and updated the useful lives, residual values, depreciation rates and methods for many categories of asset. The finance director felt the changes were necessary to better reflect the use of the assets. This resulted in the depreciation charge of some assets changing significantly for this year.

Which of the following substantive procedure should the auditor perform to obtain sufficient and appropriate audit evidence in relation to matter of depreciation on property, plant and equipment?

- (a) Review the capital expenditure budgets for the next few years to assess whether the revised asset lives correspond with the planned period until replacement of the relevant asset categories.
- (b) Inspect non-current asset accounts for a sample of purchases to ensure they have been properly allocated.
- (c) Consider whether the proceeds on disposals of PPE are reasonable and recalculate the profit or loss disposal.
- (d) For a sample of fully depreciated assets, inspect the register to ensure no further depreciation is charged.

45. As an internal auditor of LMN Bank Ltd., you have to verify the vouchers for the quarter ending 30th June 2018 of a branch at Ahmedabad. While verifying the vouchers, your team noticed that many of the bearer cheques processed by the teller have not been stamped as "paid", when discussed with the branch manager he stated the reason as ignorance on the part of official who has been assigned the duty of verifying the vouchers. As an internal auditor, what should be your next course of action:

- (a) Considering the matter as immaterial, ignore it for the internal audit report.
- (b) The Branch manager should be advised to rectify the discrepancy and the observation is closed in the internal audit report noting the corrective action taken.
- (c) The matter should be immediately reported to those charged with governance of LMN Bank Ltd.
- (d) Report the matter in Executive summary paragraph of Internal Audit Report as it is a significant internal control lapse.

46. ALM Ltd. is a trading company engaged in the business of selling readymade garments with a turnover of around Rs. 85 crore in the year 2017-18. Your firm has been appointed as statutory auditors for the year 2018-19. In the process of audit for the half year ending 30th September, 2018 your senior has instructed you to verify the debtors of the company. While verifying the same it came to your notice that the company is not taking balance confirmations from the debtors and the balance shown in the books of company is considered final for the preparation of accounts. As a statutory auditor what should be your decision on the debtors balances:

- (a) Statutory auditor should review the internal audit report and ensure as per section 143 of the Companies Act, 2013 that the company has adequate internal financial controls in place.
- (b) There is no need to take debtors confirmation as it is immaterial for the purpose of Audit Report.
- (c) The auditor is required to take external confirmation independently and wherever the auditor gets negative or no response or the response is doubtful an alternative audit procedure should be followed.
- (d). A management representation letter should be obtained by the auditor.

47. As a Central Statutory auditor of KG Ltd. for the year 2018-19 you need to verify the bank balances for the half year ending 30th September 2018. The company is holding Bank accounts in five different banks, but you found that the bank reconciliation is not complete for some of the bank accounts. When discussed with the management they explained that the number of transactions in these accounts is very huge on daily basis and there are some old entries (existing in the reconciliation statement from the year 2008 and they are not material in nature) so it is difficult to reconcile these bank accounts. As a Central Statutory Auditor what will be your decision:

- (a) The unusually old outstanding entries, as are not material in nature, should be removed from reconciliation statement and the balance in books of accounts should be considered as the balance for the balance sheet purpose.
- (b) The auditor should confirm the appropriateness of the old outstanding entries by taking bank confirmations for the same to reduce audit risk and obtain a management representation letter on pending reconciliation.
- (c) The auditor should disclose the matter in Notes to accounts of the audit report with respect to incomplete bank reconciliation.
- (d) The auditor should communicate it to those charged with governance as deficiency in internal control.

48. You are an article assistant in PQR & Associates. You are assigned an internal audit of X Ltd., a leading company in business of dairy products. While evaluating internal controls associated with related party relationships and transactions, you come across some discrepancies. What is the basic information to be collected by you related to related party relationships and transactions?

- i. The identity of the entity's related parties including changes from the prior period
 - ii. The nature of the relationships between the entity and these related parties
 - iii. Understanding of business activities of related parties
 - iv. Whether the entity has entered into any transaction with these related parties during the period and, if so, the nature and extent, and the purpose of the transaction
 - v. Materiality of related party transactions
- (a) i, ii & v
 - (b) i, ii & iv
 - (c) ii, iii & iv

- (d) iii, iv & v

49. AMS & Co is a computer hardware specialist and has been trading for over 6 years. The company is funded through overdrafts and loans and by several large shareholders. The financial year end is 31 March 2017.

AMS had significant growth in business in previous years; however, in the current year a new competitor BOM & Co, has entered the market and through competitive pricing has gained considerable market share from AMS. One of AMS's customers has stopped trading with them and has moved its business to BOM. In addition, a few specialist developers have left the company and joined the new company BOM. AMS has found it difficult to replace these employees due to the level of their skills and knowledge. AMS has just received notification that its main supplier who provides the company with specialist electrical equipment has ceased to trade.

Which of the following audit procedures should NOT be performed in assessing whether or not AMS is a going concern?

- (a) Evaluating management's plans for the future of the business, by finding out from the financial director whether the company has gained any new customers to replace the customers lost
- (b) Review board meeting minutes for evidence of progress on recruiting specialist developers to replace the ones who have left to join BOM.
- (c) Analyse and discuss the entity's last 2 years of financial statements to determine whether it is consistent with the cash flow forecast.
- (d) Review the correspondence with the shareholders to assess the probability that any of the shareholders choose to increase or sell their investment

50. ASM Motor Cars co. manufactures a range of motor cars and its year end is 31 March 2018. You are the audit supervisor of Khanna & Associates and currently preparing the audit programmes for the year-end audit of ASM. The entity undertakes continuous production of cars, 24 hours a day, seven days a week. An inventory count is to be undertaken at the year end and Khanna & Associates will attend. You are responsible for the audit of work in progress (WIP) and will be part of the team attending the count as well as the final audit. WIP constitutes the partly assembled cars at the year end and this balance is likely to be material. ASM values WIP according to percentage of completion, and standard costs are then applied to these percentages.

Which of the following is **NOT** a substantive procedure the audit could perform to obtain sufficient and appropriate audit evidence in relation to the valuation of work in progress?

- (a) Discuss with management how the percentage completions are attributed to WIP
- (b) Observe the procedures carried out in the count in assessing the level of WIP; consider reasonableness of the assumptions used
- (c) During the count, verify all the percentage completions if they are in accordance with ASM's policies
- (d) Review the level of variances between standard and actual costs

Solution

1	(b)	2	(d)	3	(a)	4	(b)	5	(b)
6	(b)	7	(d)	8	(c)	9	(d)	10	(d)
11	(b)	12	(d)	13	(c)	14	(a)	15	(c)
16	(d)	17	(a)	18	(b)	19	(c)	20	(a)
21	(d)	22	(a)	23	(b)	24	(a)	25	(d)
26	(c)	27	(a)	28	(a)	29	(c)	30	(b)
31	(c)	32	(a)	33	(d)	34	(c)	35	(b)
36	(a)	37	(a)	38	(a)	39	(d)	40	(a)
41	(c)	42	(c)	43	(c)	44	(a)	45	(b)
46	(c)	47	(b)	48	(b)	49	(c)	50	(c)

Paper 3 : Advanced Auditing Professional Ethics (Old Course)

1. XYZ Printers is a medium size printing press with turnover of Rs.100 crore for the financial Year 2015-16. The company buy paper rims for its press from different suppliers. You are the statutory auditor of the company for the year 2015-16 and the management has informed you that the company has bought paper rims from one of the supplier who is related to one of the director of XYZ Printers. What audit evidence do you need to collect for identifying and assessing the risk of material misstatement associated with related party transaction?
 - a) Prior approval of the audit committee/shareholders for the transactions with the supplier, materiality/ significance of the transactions on company's financial statements, agreement entered into with the supplier and internal control for the transactions with the supplier.
 - b) Only the prior approval of the audit committee/ shareholders for the transactions with the supplier is sufficient.
 - c) Check whether the company has formulated any policy on dealing with related party transactions and materiality of transactions.
 - d) As a statutory auditor you should check the internal controls and internal audit reports only.
2. You are the internal auditor of FCD Bank Limited for the year 2017-18 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:
 - a) Ensure that all the fixed deposit receipts are attached along with the approved loan documents.
 - b) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
 - c) Discuss the process followed for lien marking with the branch manager.
 - d) Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.
3. Mr. Vijay Kapoor, Chartered Accountant, has been appointed the statutory auditor by M/s. XYZ Private Limited for the audit of their financial statements for the year 2015-16. The company has mentioned in the audit terms that they will not be able to provide internal audit reports to Mr. Vijay during the course of audit. Advise, whether Mr. Vijay should accept the proposed audit engagement and on what grounds he can accept/ refuse the proposal?
 - i) As per SA 210 the auditor can refuse to accept the audit engagement as the management is not giving access to internal audit reports which are necessary in determining the internal controls in the company.
 - ii) There is no limitation on the scope of the auditor's work, so the auditor should accept the appointment.
 - iii) The auditor can accept the audit engagement if the management gives representation on its responsibility.

Which of the following option is correct:

- a) (ii) only

- b) Both (i) and (iii)
 - c) Both (ii) and (iii)
 - d) (iii) only
4. Best Manufacturers Limited is a manufacturing company and has entered into an agreement In February 2017 with CISCA Brothers for buying land in order to set up their new manufacturing unit. As per the agreement, Best Manufacturers were required to pay Rs.20 Lakhs as signing amount and the balance amount was required to be paid in three instalments of Rs.25 lakhs each in the month of May, July and September 2017. The title deed for the land was to be transferred after the payment of second instalment in July 2017, so in the accounts for the year 2016-17 of the Best Manufacturers the payment of signing amount was booked as an expense. Your firm have been appointed as auditor of financial statements of Best Manufacturers Limited for the year 2016-17. There is conflict between Financial Reporting Framework and Legal requirement, so what will be the duty of your firm in such case?
- a) Incorporate the changes in financial statements as per the legal requirement.
 - b) As the title deed has not been transferred in favour of the company in the year 2016-17, there is no need to review the payment in terms of Accounting Standard or any other legal requirement.
 - c) Take management representation on the same.
 - d) Discuss the matter with management and ensure disclosure of the same in notes to accounts. In the absence of same, the auditor may consider issuing modified opinion.
5. BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2017-18. In order to review internal controls of the sales department of the company you visited the department and noticed the work division as follows:
- 1) An officer was handling the sales ledger and cash receipts.
 - 2) Another official was handling dispatch of goods and issuance of Delivery challans.
 - 3) One more officer was there to handle customer/ debtor accounts and issue of receipts.
- As an internal auditor do you think that there was proper division of work? If not, why?
- a) There is proper division of work as the despatch and sales ledger maintenance work is allotted to different officials.
 - b) Company has not done proper division of work as the receipts of cash should not be handled by the official handling sales ledger.
 - c) Delivery challans should be verified by an authorised official other than the officer handling despatch of goods.
 - d) Both b and c are correct.
6. Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 2017-18. While verification of company's inventories as on 31st March 2018 you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties, what is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held and the stock as disclosed in company's records actually belongs to them?
- a) Ensure that the total stock including the stock with third party tally with the stock register maintained by the company.

- b) Obtain confirmation from the third party/s with whom the inventories of the company are held and reconcile the same with stock register.
 - c) Conduct a physical verification of stock maintained with third party/s.
 - d) Obtain a written confirmation from the departmental head of the company for the inventories maintained at other places as audit evidence.
7. Bhishm Limited decided to appoint Mr. Rajvir, chartered accountants as the branch auditor for the audit of its Lucknow branch accounts for the year 2017-18. The decision to appoint branch auditor was taken by way of Board Resolution in the meeting of Board of Directors of the company, held in April 2017, subject to shareholders' approval in AGM of the company scheduled to be held in June 2017. Meanwhile, the Principal Auditor of the company raised an objection that the branch auditor cannot be appointed without his consent. Whether the objection raised by company auditor is valid?
- a) The objection raised by company auditor is not valid as per section 143(8) of the companies Act, 2013 and the Board has authority to appoint branch auditor but should be approved by shareholders in General Meeting.
 - b) The objection raised by company auditor is valid as it is necessary to consult/obtain the consent of Principal Auditor before appointing Branch Auditor.
 - c) The Board of Directors has no authority to appoint Branch Auditor so the objection raised by Principal Auditor is valid.
 - d) The objection raised by company auditor is not valid as it is compulsory to appoint branch auditor as per Sec.139 of the Companies Act, 2013.
8. Prakash & Co. Chartered Accountants are the internal auditor of Textbook Private Limited, for the year 2016-17. You have been instructed by your senior to check the internal controls for the investments done by the company during the year. While verifying the same you noticed that the property documents, share certificates and other investment documents have been kept in a safe custody locker, whose keys are kept with an authorised official of Accounts Department of the company and none other than that official has access to locker. As an internal auditor do you consider as material weakness in internal controls? If yes, how will you report the matter?
- a) It cannot be considered as material weakness in internal control as the company might not have any other reliable employee within in its staff members.
 - b) The safe custody locker should always be under the control of two authorised officials. Therefore, the auditor should communicate such material weakness to the management or audit committee.
 - c) It is not material weakness to be reported as giving the keys to two or more persons can lead a situation of confusion only.
 - d) The auditor should discuss the observation with the management and there is no need of any written communication.
9. DSP Chartered Accountants have been appointed statutory auditors of Flakes Private Limited for the year 2016-17. The company's net profit has declined by 5% as compared to previous year in spite of increase in sales. On verification of company's profit & loss account it is noticed that in the current year a huge amount is debited as loss on sale of fixed assets due to which the profits has reduced. The auditor discussed the matter with management and was told that since the lot of fixed assets were lying idle due to their non-working condition, they have been sold at less than their written down value. As an auditor do you think that the fact regarding disposal of assets should be disclosed in auditor's report/ notes to accounts?

- a) If the assets has been sold as per company's policy and under applicable Financial Reporting framework, then separate disclosure is not required in auditor's report/ notes to accounts.
 - b) As the sale of assets has an impact on profit for the current year, it should be disclosed in the notes to account of the Financial Statements.
 - c) Even if the assets has been sold as per company's policy and under applicable Financial Reporting framework, the auditor should disclose the facts in Emphasis of Matter Paragraph of Audit Report as the loss booked in Profit & Loss account has a material impact on the net profit of the company.
 - d) As the loss on sale of fixed assets is debited in Profit & Loss Account as per Accounting Standard, there is no requirement of disclosure of the same in any report.
10. The auditor is required to evaluate management's assessment of the entity's ability to continue as a going concern.

Certain events/ conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor is required to request management to extend its assessment period to at least twelve months from that date. The management of the company would provide the financial support letter extended by its parent company.

In the given case, which one of the following options is correct?

- a) The auditor may obtain the financial support letter from the parent company for a period of 12 months from year end date.
 - b) The auditor may obtain the financial support letter from the parent company for a period of 12 months from date of signing of the financial statements.
 - c) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from year end date.
 - d) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from date of signing of the financial statements.
11. Auditor's report on prior period i.e. year ended 31 March 2017 included a modified opinion on an unresolved matter. If such matter is not relevant/ immaterial to the current period figures in the financial statements for the year ended 31 March 2018, how should the auditors deal with this matter in his auditors report for the year ended 31 March 2018?
- a) Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
 - b) Modify opinion on current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditors report for the year ended 31 March 2018.
 - c) Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.

- d) Include an emphasis of matter because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditors report for the year ended 31 March 2018.
12. DEF Ltd has outsourced its payroll to a third entity (service organization). What should be the basis followed by the auditor of DEF Ltd in respect of audit of payroll?
- The auditor should obtain Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organisation. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.
 - The auditor may refer to the work of service auditor in his report containing an unmodified opinion and diminish his responsibility for the audit opinion.
 - The auditor should obtain Type 1 or Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organisation. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.
 - Since the payroll process is outsourced to a service organization, there is nothing much an auditor can do. Auditor should audit the other information for the financial statements and accordingly should issue his opinion.
13. The profits of XYZ Ltd was Rs. 1000 crores for the financial year ended 31 March 2018. While planning the audit of the financial statements of XYZ Ltd, the auditor determined the materiality of Rs. 50 crores. The materiality was taken as 5% of profits of XYZ Ltd. During the course of audit, on becoming aware of information during the audit, audit adjustments were passed which resulted in significant decline in the profits of XYZ Ltd. Post audit adjustments, the profits reduced to Rs. 500 crores. Because of the changes in profits of the company, the materiality may get reduced to Rs. 25 crores.
- XYZ Ltd is a large size company having a turnover of Rs. 20,000 crores for the financial year ended 31 March 2018. Considering the size of the company, the auditor believes that materiality amount should not go below Rs. 50 crores as that would result in significant increase in their work and the work of the auditor may not get completed within the required timelines. Accordingly, the auditor wants to change the basis of materiality by increasing the percentage of profits or taking revenue as the basis for computation of materiality. In the given situation, which one of the following options is correct?
- Considering the size of the company, the auditor may be appropriate in changing the basis of materiality to save his work.
 - The basis of materiality cannot be changed to save the increased work of auditor if there has been additional information which resulted in decline of profits during the course of audit.
 - The auditor need not change the materiality basis. He can complete his audit using the materiality of Rs. 50 crores which was determined initially by him while planning the audit.
 - Since the profits of XYZ Ltd have got reduced due to audit adjustments, the same cannot be considered to be the basis for computation of materiality. Materiality has to be based on management computed numbers.

14. M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. For the purpose of accepting position as the statutory auditors of WEF Ltd, M/s ABC & Co LLP has sent a written communication to M/s LMN & Co LLP to obtain no objection letter.

In the given case, which one of the following options is correct?

- a) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.
 - b) M/s ABC & Co LLP needs to make a communication with LMN & Co LLP and obtain his no objection letter for accepting the position of statutory auditors of WEF Ltd. Once this is done, M/s ABC & Co LLP can be appointed by WEF Ltd. However, in that case it will not be mandatory to follow the provisions of the Companies Act 2013.
 - c) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. ABC & Co LLP also needs to make a communication with M/s LMN & Co LLP to obtain his no objection letter.
 - d) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.
15. The auditor is required to audit a complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS by the management solely for preparation of consolidated financial statements of the holding company. Is the auditor required to include 'Other Legal and Regulatory Requirements' to comment on matters such as maintenance of proper books of accounts, compliance with accounting standards etc. in the audit report?
- a) Since the auditor is required to audit complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS, it will be mandatory for the auditor to include 'Other Legal and Regulatory Requirements' in his audit report.
 - b) The audit report is not issued pursuant to requirement of section 143 and hence 'Other Legal and Regulatory Requirements' is not required to be included in the audit report.
 - c) The audit report is not issued pursuant to requirement of section 143 and hence some of the requirements related to 'Other Legal and Regulatory Requirements' may be included in the audit report as per the discretion of the management of the Company.
 - d) The auditor may include 'Other Legal and Regulatory Requirements' in the audit report but he would need approval of the Board of Directors for doing so.
16. A Ltd. is a company in the business of buying and selling modern and contemporary Indian arts.

Following are the assets (in millions) of the Company on 31 March 2017:

- Fixed assets: INR 10
- Investments: INR 20
- Loans and advances: INR 40
- Inventories: INR 400
- Trade receivables: INR 10
- Cash and cash equivalents: INR 20

The management has not obtained valuation of inventories as at 31 March 2017 from a valuation expert in art forms. The auditors could not perform alternate procedures for

valuation of inventories. Therefore, auditors were not able to comment on the carrying value of inventories. However, the auditors were able to obtain sufficient appropriate audit evidence in respect of all other captions of financial statements. The auditors qualified their opinion in the auditor's report. What are your views on auditors qualifying their report?

- a) The auditors were able to obtain sufficient appropriate audit evidence in respect of all captions of financial statements other than inventories. The auditors may qualify their opinion in the auditor's report considering only one caption of the financial statements could be misstated.
 - b) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should issue adverse opinion.
 - c) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should disclaim their opinion.
 - d) Inventory is considered to be an important component of the financial statements. This is one of the items wherein significant risk may exist from the audit's perspective. Auditor should take cognizance of this fact and accordingly decide his opinion – qualified/ adverse/ disclaimer.
17. X Ltd is in the business of trading of industrial equipments. The Company's operations are based out of India and Germany. For the purpose of hedge, the company has taken forward contracts. The Company is Phase 1 company as per the requirements of Ind AS and hence forward contracts have been fair valued for the purpose of preparation of financial statements. The Company also got its property, plant and equipment fair valued. The Company has shown its fair valuation reports in respect of above items to the auditors. What should be the responsibility of the auditors in this case?
- a) The auditor may refer to the work of the valuer in his report containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
 - b) The auditor may refer to the work of the valuer in his report for forward contracts but not for property, plant and equipment, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
 - c) The auditor may refer to the work of the valuer in his report for property, plant and equipment but not for forward contracts, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
 - d) The auditor may involve his own expert for the purpose of audit of fair valuation of forward contracts and property, plant and equipment. But in any case he cannot reduce his responsibility for the audit opinion by referring to the work of the valuer in his report.
18. PQR Ltd has three subsidiaries, two associates and five joint ventures. The standalone and consolidated financial statements of PQR Limited are audited by M/s Jain & Co LLP (Group auditors) for statutory reporting in India. The standalone financial statements of other group companies of PQR Ltd are audited by some other audit firms (component auditors). For the purpose of consolidation, the instructions sent by M/s Jain & Co LLP to component auditors state that the principal auditors would be working on the principle of division of responsibility.

The instructions further state that the Group auditor may review selected working papers of the component auditors covering identified areas of emphasis, if required.

Considering the local regulatory requirements, the component auditors do not agree to get their working papers reviewed from the Group auditors. Please choose the course of action for the Group auditors in the given case.

- a) As per the Standards of Auditing in India, "When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report would be stating the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited/reviewed by the component auditors have been included in the financial information of the entity." The Group auditor is not required to audit the financial statements of the components.
 - b) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components and hence the Group auditor is required to audit the financial statements of the components.
 - c) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor may either audit the financial statements of the components or review the work of the component auditors.
 - d) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor would be required to review the work of the component auditors. If the component auditors do not provide access to their working papers to the Group auditors, the Group auditors may qualify his auditors report.
19. M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. WEF Ltd is subsidiary of WEF Holding Ltd, UK. For the purpose of consolidation, WEF Ltd is required to send financial information of the company for the year in the Reporting package comprising of balance sheet, statement of profit and loss, statement of cash flow and notes to accounts. Since WEF Holding Ltd has many group companies across the globe, to ensure consistency in reporting of numbers under various heads, a standard reporting package is used by all the group companies. The group companies do not have any provision to change the groupings/ classifications which need to be reported as per the Group accounting manual which is prepared as per the Group's accounting policies. Group follows IFRS.
- ABC & Co LLP is also required to audit the reporting package of WEF Ltd as per IFRS. During the course of audit, the auditor observed that some classifications are not in line with IFRS, however, due to the limitation of the reporting package no such corrections can be made. How should the auditor deal with this?
- a) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report.
 - b) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. However the auditor may also include a note separately in respect of the corrections required.
 - c) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor cannot change anything. However, the auditor is

required to issue to report as per IFRS wherein the classifications are wrong and hence the auditor should issue qualified report if the amount is material.

- d) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything. However the auditor should issue his report as per the Group accounting manual instead of IFRS.

20. AKB Ltd is a large sized company having diversified business activities. The company's operations are spread across various locations within India and outside India. The company has many units and plants. The no of transactions of the company is large and it uses SAP as its ERP package. The company appointed LLM & Associates as their new tax auditors for the current year. Tax auditors were reviewing the statutory compliances and observed that currently there is no process of the company to check whether TDS has been correctly deducted on all transactions or not. Since the transactions of the company may be running in thousands and covers various provisions of TDS, the management believes that such a process cannot be established. Also in the past this exercise was never done and no case of any short/non-deduction of TDS has been reported in Form 3CD in the past. How should the tax auditor deal with this matter in his report?

- a) Management is right and hence it should be ignored by the tax auditor.
- b) Tax auditor should test check and basis that he should close this point.
- c) Management should provide a reconciliation to the auditor reconciling the accruals/ expenses with TDS deducted during the year to ensure TDS is deducted appropriately. If the same is not available, tax auditor should qualify his report.
- d) Management should set up a process as per the requirement of the tax auditor. For the current year, tax auditor should obtain management representation on this matter and should close this accordingly.

Solution

1	(a)	2	(b)	3	(b)	4	(d)	5	(d)
6	(b)	7	(a)	8	(b)	9	(c)	10	(a)
11	(b)	12	(c)	13	(b)	14	(c)	15	(b)
16	(c)	17	(d)	18	(a)	19	(c)	20	(c)

Paper 3 : Advanced Auditing and Professional Ethics (Old Course)

1. This year you were included in the audit team with portfolio of few not-for- profits organisations. MJ Hospital was one such non-for-profit organisation with the year end 31 March 2018. MJ Hospital was government funded organisation and was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital?
 - a. Time card clocking in to ensure that the employees including resident doctors are only paid for those hours worked
 - b. Strict controls over the authorisation of overtime to ensure it is only worked where really needed
 - c. There are any restrictions imposed by the objectives and powers given by hospital's governing documents
 - d. A recognised plan of the organisation's structure clearly showing the areas of responsibility and lines of authority and reporting.

2. The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company's vital information. Which of the following is the best program for the protection of a company's vital information resources from computer viruses?
 - a. You verify the policy document which has stringent corporate hiring policies for staff working with computerized functions.
 - b. You observe that there is an existence of a software program for virus prevention.
 - c. You also verify that there are prudent management policies and procedures instituted in conjunction with technological safeguards.
 - d. You identify that there are physical protection devices in use for hardware, software, and library facilities.

3. As the external auditor of Olive Co, you have performed analytical procedures which have highlighted a 36% increase in purchases compared to the previous period. Olive Co manufactures tools required for heavy machinery and the year under audit is 31 March 2018. Which further audit procedures would you perform in response to this?
 - (1) For a sample of purchase invoices around the period end, inspect the dates and compare with the dates of goods received notes and the dates recorded in the purchases and payables to confirm the application of correct cut-off.
 - (2) Trace a sample of shipping documentation to purchases invoices and into the purchases and payables ledger.
 - (3) For a sample of purchase transactions recorded in the ledger, vouch the purchase invoice back to supplier orders and shipping documentation.
 - (4) For a sample of purchase invoices, examine for proper classification into purchase accounts.
 - a. Procedure (1) and (2)
 - b. Procedure (1) and (3)
 - c. Procedure (2) and (4)
 - d. Procedure (3) and (4)

4. You are the middle of the audit of one of your client Amy & Co for the year ended 31 March 2018. Following is the bank reconciliation statement for the month end 31 March 2018.

	Rs.	Rs.
Balance per bank statement 31 March 2018		
1,35,111.00		
Add: deposits outstanding		
30 March (ref 112)	1,10,222.00	
31 March (ref 113)	25,000.00	<u>1,35,222.00</u>
		2,70,333.00
Less: outstanding cheques		
240	20,250.00	
272	12,300.40	
274	25,000.00	
276	21,345.25	
280	19,000.00	
281	22,200.00	
		<u>1,20,095.65</u>
Balance per bank in the general ledger 31 March 2018		<u>1,50,237.35</u>

Which of the following procedures would not be followed to verify the bank reconciliation statement?

- Verify by checking paying-in slips that the uncleared bankings (deposits outstanding – ref (112 and 113) were paid in prior to the year end, and review whether they cleared quickly after the year end. Any that have not cleared soon after the year end should be investigated.
 - Verify that the year-end balance per the general ledger according to the reconciliation (Rs.1,50,237.35) agrees with the general ledger account balance at 31 March 2018 and that this has been properly reflected in the financial statements.
 - Scrutinise the cash book and bank statements before and after the period end for exceptional entries or transfers which have a material effect on the balance shown to be in hand.
 - Agree the balance per bank statement at 31 March 2018 as shown on the reconciliation (Rs.1,35,111.00) to the bank statement and to the amount for that account shown on the bank letter.
5. You are an audit senior at Ghaisas & Co and are currently performing the final audit of Bingham Co. for the year ended 31 March 2018. The company is a manufacturer and retailer of table lamps. The current audit senior is ill, and you have been asked to complete the audit of payroll in their absence. On arrival at the head office of Bingham Co, you determine the following data from a review of the current year and prior year audit files:
- As at 31 March 2017, the company had 350 employees
 - On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line
 - On 1 June 2017, all remaining staff received a 5% pay rise

- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018.

The following audit evidence has been gathered relating to the accuracy of wages and salaries for Bingham Co.

- (1) Proof in total calculation performed by an audit team member
- (2) Written representation from the directors of Bingham Co confirming the accuracy of wages and salaries
- (3) Verbal confirmation from the finance director of Bingham Co confirming the accuracy of wages and salaries
- (4) Recalculation of the gross and net pay for a sample of employees by an internal audit team member of Bingham Co.

What is the order of reliability of the audit evidence starting with the MOST RELIABLE first?

- a. Audit evidence - 1, 2, 3, 4
 - b. Audit evidence - 1, 4, 2, 3
 - c. Audit evidence - 4, 1, 2, 3
 - d. Audit evidence - 4, 1, 3, 2
6. Your firm has been appointed as the auditors of Stuart Limited, a well-established consumer goods manufacturing company. During the audit you were provided with various oral representation during meetings and discussions. While finalizing the audit you requested the management to provide such representations in writing. The management has however informed you that they are not accustomed to providing any representations to the external auditor in writing. The management is of the view that it has provided full access to whatever records, documents and evidences were available with it without any exception and that now it is the auditor's responsibility to correlate the same with the oral representations.
- What would be your response to the above?
- a. Agree with management since you have been provided full access to whatever records, documents and evidences were available with management without any exception
 - b. Document that management gave oral representation in audit working paper and issue unmodified opinion.
 - c. After corroborating the audit evidences, consider this as a scope limitation and then consider to express a qualified opinion or disclaimer of opinion or re-assess the continuation of engagement with the audit client if integrity of the management is in question.
 - d. Give unmodified opinion and include the observation in "other matter" paragraph, stating that the written representations of the concerned matters could not be obtained.
7. The year-end audit of your client Alpha Co began shortly after the reporting period 31 March 2018. Alpha Co deals in manufacture and retailer of stationery items. Last year, you had worked on the non-current assets. This year you requested your manager to give you the work on revenue. You have been given a list of procedures to carry out on revenue and you have decided to prioritise those which deal with the key assertion of occurrence. The revenue for the current year has increased by 10% from the previous year. Which of the following substantive procedures provide evidence over the OCCURRENCE assertion for revenue?

- (1) Compare the reported revenue figure to the budget and to the previous year, investigating any significant differences
- (2) Select a sample of goods despatched notes (GDNs) and agree to invoices in the sales day book
- (3) Select a sample of invoices from the sales day book and agree to GDNs of Alpha Co
- (4) Select a sample of invoices and recalculate the invoiced amount agreeing to price list shared by the finance director of Alpha Co.

- a. Procedure 1 and 3
- b. Procedure 1 and 2
- c. Procedure 2 and 4
- d. Procedure 3 and 4

8. You are an audit senior of Pendse Accountants and are currently conducting the audit of Stalwart Co for the year ended 31 March 2018. Below is an extract from the list of supplier statements as at 31 March 2018 held by the company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:

	Supplier Statement balance	Payables ledger balance
	Rs.	Rs.
AB Co	90,000	70,000
CD Co	1,85,000	1,15,000

AB Co: The difference in the balance is due to an invoice which is under dispute due to faulty goods which were returned on 29 March 2018.

CD Co: The difference in the balance is due to the supplier statement showing an invoice dated 27 March 2018 for Rs.70,000 which was not recorded in the financial statements until after the year end. The payables clerk has advised the audit team that the invoice was not received until 3 April 2018.

The audit manager has asked you to review the full list of trade payables and select balances on which supplier statement reconciliations will be performed. Which of the following statement is correct in respect of including or excluding from your sample?

- a. Exclude with material balances at the year-end.
 - b. Exclude suppliers which have a high volume of business with Stalwart Co
 - c. Include major suppliers with nil balances at the year-end.
 - d. Include suppliers where the statement agrees to the ledger.
9. The audit work of Amrut & Co is underway for the year ended 31 March 2018. Your audit manager asked you to look at the completeness of trade payables. The supplier statement balance for one of entity's supplier PR Co showed a difference of Rs.62,000 higher than recorded in the payables ledger balance. Which of the following audit procedures should be performed in relation to the balance with PR Co to determine if the payables balance is understated?
- a. Inspect the goods received note to determine when the goods were received
 - b. Inspect the purchase order to confirm it is dated before the year end
 - c. Review the post year-end cashbook for evidence of payment of the invoice
 - d. Send a confirmation request to PR Co to confirm the outstanding balance

10. One of your team members has taken leave for her final exams due in 15 days. She was working on the accruals balance of Karce & Co which could not be completed before she went on study leave. The audit manager has asked to complete the task on accruals. For the current year ended 31 March 2018, there has been an increase in the accruals by 15% as compared to the previous years. Which of the following procedures should be performed to determine if the accruals are accurate, valued and allocated correctly?
- Test transaction around the year end to determine whether amounts have been recognised in the correct financial period.
 - For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct.
 - Confirm payment of net pay per payroll records to cheque or bank transfer summary for the accruals on salaries.
 - For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off.

11. The draft financial statements of Tex Co for the year ended 31 March 2018 show the following information:

	Rs.
Revenue	52,00,000
Cost of sales	37,00,000
Gross profit	15,00,000
Trade receivables	18,00,000
Trade payables	10,00,000

The auditor has confirmed the trade payables payment period with the Tex Co staff as 98 days during the current year. This was compared with the payment period with the last year records and found out there has been a decrease of 20 days in average. Which of the following audit procedures will provide the auditor with the assertion of valuation of trade payables at the year end?

- Review the trade accounts payables listing to identify any large debits which should be recorded as trade receivables or deposits
 - For a sample of vouchers, inspect supporting documentation, such as authorised purchase orders.
 - Test transactions around the year end to determine whether amounts have been recognised in the correct financial period.
 - Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing with amounts owed to these suppliers in the previous year.
12. The main operations of PT Co are conducting training programs for the newly qualified commerce graduates to make them ready for the jobs available. The company owns a 2-storey building in the centre of the city, where they could attract lot of students for the courses offered. Currently, the trainings are provided in-house. PT has plans to expand and offer online courses as well. You are the audit senior for PT Co for the year ended 31 March 2018 and in charge of audit work on non-current assets. New furniture and white boards have been purchased during the current year. The total non-current assets shown in the financial statements stands at Rs.289.5 lakhs. Which of the following audit procedures are appropriate to test the VALUATION assertion for non-current assets?
- Ensure disposals are properly accounted for and recalculate gain/loss on disposal

- (2) Recalculate the depreciation charge for a sample of assets ensuring that it is being applied consistently and in accordance with Ind AS 16 Property, Plant and Equipment
- (3) Review the repairs and maintenance expense account for evidence of items of a capital nature
- (4) Review board minutes of PT for evidence of disposals during the year and verify that these are appropriately reflected in the non-current assets register
- (5) Agree a sample of additions included in the non-current assets register to purchase invoice and cash book. Mainly the new furniture purchased during the year by PT Co.
- (6) Review physical condition of non-current assets for any sign of damage.

- a. Audit Procedures 1, 2, 5 and 6
- b. Audit Procedures 1, 3, 4 and 6
- c. Audit Procedures 2, 3, 4 and 5
- d. Audit Procedures 3, 4, 5 and 6

13. The audit team has obtained the following results from the trade receivables circularization of Oak Co for the year ended 31 March 2018.

Customer	Balance as per sales ledger	Balance as per customer confirmation	Comment
	Rs	Rs	
M Co	2,25,000	2,25,000	
N Co	3,50,000	2,75,000	Invoice raised on 28 March 2018
O Co	6,20,000	4,80,000	Payment made 30 March 2018
P Co	5,35,000	5,35,000	A balance of Rs.45,000 is currently being disputed by P Co.
R Co	1,78,000	No reply	

Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?

- a. No further audit procedures need to be carried out in relation to the outstanding balances with M Co and P Co
 - b. The difference in relation to N Co represents a timing difference and should be agreed to a pre-year-end invoice
 - c. The difference in relation to O Co represents a timing difference and should be agreed to pre-year-end bank statements
 - d. Due to the non-reply, the balance with R Co cannot be verified and a different customer balance should be selected and circularised
14. For the current year audit of Beta Co for the year ended 31 March 2018, your manager suggested that we could use computer-assisted audit techniques. He asked you to plan the audit work on trade receivables. The financial statements of Beta Co showed trade receivables of Rs.243 crores in the current year. Which of the following procedures could not be performed by using computer-assisted audit techniques?
- a. Selection of a sample of receivables for confirmation
 - b. Calculation of receivables days

- c. Production of receivables' confirmation letters
- d. Evaluation of the adequacy of the allowance for irrecoverable receivables

15. Top Pizzas Co operates a large chain of fast food restaurants. You are an audit supervisor of Shivam & Associates and are currently preparing the audit programmes for the audit of Top Pizza's financial statements for the year ended 31 March 2018. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed. One of the issue was on Property, plant and equipment of the entity.

In the past Top Pizza has received negative press reports over the condition of its fast food restaurants, with comments suggesting they are old fashioned and tired looking. Therefore during the year the company undertook a full review of all its assets and carried out extensive refurbishments to the majority of its restaurants. This review resulted in a significant amount of ageing fixtures and fittings being disposed of and a significant amount of capital expenditure was invested in all remaining restaurants.

Which of the following is not a substantive procedure to be used by the auditor to obtain sufficient and appropriate audit evidence on property, plant and equipment?

- a. Obtain a breakdown of additions, cast the list and agree included in the non-current assets register to confirm completeness of fixtures and fittings.
- b. Select a sample of additions and agree cost to supplier invoice to confirm valuation.
- c. Verify rights and obligations by agreeing the addition of fixtures and fittings to a supplier invoice in the name of Top Pizza.
- d. Review the evidence for recalculation of depreciation charge on the additions and disposals made in the year of acquisition according to the company policy.

16. RK Co is a retailer in stationery items and runs 10 shops in and around South Mumbai. In the audit plan prepared for the current year ended 31 March 2018, you have included statistical sampling method for testing the accounts payable balance. You asked your audit senior to review the results of some statistical sampling testing, which resulted in 20% of the payables balance being tested.

The testing results indicate that there is a Rs. 58,000 error in the sample:

Rs. 30,000 which is due to invoices not being recorded in the correct period as a result of weak controls and additionally there is a one-off error of Rs. 28,000 which was made by a temporary clerk.

What would be an appropriate course of action on the basis of these results?

- a. The error is immaterial and therefore no further work is required
- b. The effect of the control error should be projected across the whole population
- c. RK Co should be asked to adjust the payables figure by Rs. 58,000
- d. A different sample should be selected as these results are not reflective of the population

17. Sula Hotels Co operates a number of hotels providing accommodation, leisure facilities and restaurants. You are an audit supervisor of Pai & Co, conducting the audit of Sula Hotels Co for the year ended 31 March 2018. The following information has been brought to your attention:

Non-current assets: Sula Hotels Co incurred significant capital expenditure during the year updating the leisure facilities at several of the company's hotels. Depreciation is charged on all assets monthly on a straight line basis (SL) and it is company policy to

charge a full month's depreciation in the month of acquisition and none in the month of disposal. The rates are as per Schedule II of the Companies Act, 2013.

The audit team has obtained the following extract of the non-current assets register detailing some of the new leisure equipment acquired during the year.

Extract from Sula Hotels Co's non-current assets register:

Date	Description	Cost	Depreciation policy	Charge for the year	Carrying amount
		Rs		Rs	Rs
01/08/2017	8 treadmills	3,60,000	36 months SL	80,000	2,80,000
15/08/2017	10 exercise bikes	1,50,000	3 years SL	50,000	1,00,000
17/11/2017	10 rowing machines	2,00,000	36 months SL	44,444	1,55,556
19/11/2017	8 cross trainers	1,20,000	36 months SL	16,667	1,03,333
		8,30,000		1,91,111	6,38,889

In order to verify the depreciation charge for the year, the audit team has been asked to recalculate a sample of the depreciation charges. The audit team has also been asked to carry out detailed testing on the valuation of non-current assets.

Which of the following correctly calculates the depreciation charge for the new assets for the year ended 31 March 2018 and the resultant impact on non-current assets?

- Depreciation should be Rs.1,57,777, assets are understated
- Depreciation should be Rs. 2,76,667 assets are understated
- Depreciation should be Rs.1,34,722 assets are overstated
- Depreciation should be Rs.1,74,444, assets are overstated

18. You are an audit manager with Shah & Associates and are currently performing the final audit of Kapoor Industries for the year ended 31 March 2018. The company is a manufacturer and retailer of shoes and boots. The audit senior has provided you with the following information from the review of the current year and prior year audit files, to complete the audit of payroll

- As at 31 March 2018, Kapoor Industries had 450 full time employees and 50 part time employees.
- One of the product lines was discontinued during the year, and on 1 May 2017, 10% of full-time staff and all the part time employees were made redundant. This was from immediate effect.
- 10% of the employees were promoted and they received a 8% rise in their salaries.
- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018.

Which of the following are substantive ANALYTICAL PROCEDURES to be performed to complete the audit work for wages and salaries of Kapoor Industries?

- (1) Trace and agree the total wages and salaries expense per the payroll system to the draft financial statements of Kapoor Industries.
 - (2) Recalculate the gross and net pay for a sample of full time and part time employees, agree to payroll records and investigate any discrepancies.
 - (3) Compare the current year total payroll expense to the prior year and investigate any significant differences
 - (4) Perform a proof in total calculation and compare expected expense to actual expense within the draft financial statements
- a. Analytical procedure 1 and 2
 - b. Analytical procedure 1 and 3
 - c. Analytical procedure 2 and 4
 - d. Analytical procedure 3 and 4
19. You are the audit manager responsible for the audit of AB & Co. AB specializes in the manufacture of electricals goods for domestic use, such as irons, kettles, toasters, vacuum cleaners, coffee makers. The external audit of AB for the year ended 31 March 2018 is at the review and finalisation stage. The draft financial statements show a profit after tax of Rs.52.5 crores and a total assets of Rs. 190 crores. The following issue has been noted by the audit senior. The company has set up a provision for warranty costs of Rs.3.45 crores in the financial year. These costs are not deductible for tax purposes until AB pays the claims. The company has not made any adjustments for the provision in the financial statements. The tax rate is 20%. Which of the audit evidence would not be appropriate to be added in the audit working papers relating to the above provision?
- a. Copy of the assumptions and calculations from the management of AB to arrive at the figure of Rs.3.45 crores.
 - b. The provision amount seems to be material since, 6.6% of the profit after tax. Auditor need to consider qualifying the audit report.
 - c. Calculation of the deferred tax asset as per Ind AS 12 Income Tax, since there is a deductible temporary difference arising on the provision.
 - d. Written representation point from the management of AB confirming the amount of provision in respect of warranties.
20. Your audit firm has been appointed as auditors of Red White Limited a manufacturing entity. The year under audit is 31 March 2018. While verifying account heads with high risk areas like revenue and inventory, you identify certain issues for which you are not provided satisfactory replies and documents by the client. At the same time Red White Limited approaches you to change the scope of the engagement. They give you the reason that they have misunderstood the scope of assignment earlier. What course of action would you adopt in this situation?
- a. Accept the revised terms of engagement, as the change is resultant of change in circumstance which affect entity's requirements or misunderstanding concerning nature of service originally requested and consider aforesaid as reasonable basis for requesting change in the engagement.
 - b. Accept the revised terms of engagement and record justification of the change in the engagement letter.

- c. Disagree to the revised terms and withdraw from the engagement where possible under applicable law and regulations and determine whether there is any obligation, either contractual or otherwise, to report the circumstance to other parties such as those charged with governance, owners or regulators.
- d. Disagree to the revised terms of the engagement and have your terms of increased fees since the scope of the engagement has changed.

Answers Key

1.	c.	6.	c.	11.	d.	16.	b.
2.	c.	7.	a.	12.	a.	17.	a.
3.	b.	8.	c.	13.	b.	18.	d.
4.	c.	9.	a.	14.	d.	19.	b.
5.	b.	10.	b.	15.	d.	20.	c.

Paper 4: Corporate and Allied Laws (Old Course)

1. From the following information in respect of company ABC Ltd. Compute the amount the company is required to spend on account of Corporate Social Responsibility for the Financial Year 2017-2018:

Financial Year Cr.)	Net Profit(In
2014-15	30
2015-16	22
2016-17	27

- (a) 26 Crore
- (b) 52 Lacs
- (c) 55 Lacs
- (d) 26 Lacs

2. Mr. B, director of XRL Company from 2006. He got his DIN allotted to him on May 6, 2017. By what date he should have intimated his DIN to XRL Company?

- (a) Before May 20, 2017
- (b) Before June 6, 2017
- (c) Before July 6, 2017
- (d) Before August 6, 2017

3. Mr. Raman, is appointed as valuer in April, 2018 in ABC Ltd. He undertook the valuation of the assets of the company in 2018. In case Mr. Raman becomes interested in any property, stock etc of the company, he may be not be eligible to undertake valuation in such property of the company till:

- (a) 2019
- (b) 2020
- (c) 2021
- (d) He will never be appointed as Registered Valuer of ABC Ltd.

4. PQR Company give its assent to give guarantee to ABZ Company on the taking of loan from financial institution. According to the Companies Act, 2013, the said act should be approved by the Board of Directors. State the mode of approval adopted by the board of directors of PQR company-

- (a) Board shall give approval for giving guarantee on the loan by simple majority
- (b) Board shall give approval by passing circular resolution.
- (c) Board shall give approval by passing resolution through special majority
- (d) Board shall give unanimous approval.

5. Mr. X, a director of the company, intimated of his participation in the meeting scheduled on August, 2018. He declared his participation through electronic mode, in April 2017. State whether Mr. X is entitled to participate in the meeting to be conducted in August 2018 –

- (a) Yes, intimation about such participation was made at the beginning of the calendar year
- (b) No, because intimation was made in previous calendar year
- (c) Yes, because company was intimated of its participation in the meeting.
- (d) No, because valid period of declaration (i.e., 1 year) of his participation expired.

6. In compliance to the Companies Act, 2013, at least one woman director shall be on Board of such class or classes of companies as may be prescribed. Ms. Riya is keen to hold the office of woman director in a company. She has selected some companies in which there is a vacancy for the woman director. Advise Ms. Riya in selecting the companies which are mandatorily required to appoint a woman director:

- (a) PQR Limited which is a unlisted company and having paid up share capital of 150 crore rupees as per the last date of latest audited financial statements.
- (b) ABC Limited which is a listed company and having a turnover of 150 crore rupees as per the last date of latest audited financial statements.
- (c) XYZ Limited which is a unlisted company and having a turnover of 350 crore rupees as per the last date of latest audited financial statements.
- (d) Both in ABC Limited and XYZ Limited

7. A director of XYZ, a Pvt. Ltd. takes a loan from its company. Due to some reasons, he fails to repay the debt within the given time period. He request board of directors to give him time for repayment of debt. State which of the below statements is correct with respect to the exercise of the power in the given situation as per the Companies Act, 2013-

- (a) Power to fix the time limit for repayment of any debt due from director can be exercised only by members by special resolution at a general meeting.
- (b) Power to fix the time limit for repayment of any debt due from director can be exercised by Board of the company itself.
- (c) Power to fix the time limit for repayment of any debt due from director can be exercised with the prior permission of the company in general meeting while taking debt.
- (d) Board shall not exercise this power if the provision related to repayment of debt is contained in the articles of the company.

8. Under what circumstances the meeting of the creditors may be dispensed by the NCLT?

- (a) if 70% of the creditors in value agree and confirm to the scheme by way of affidavit
- (b) if 80% of the creditors in value agree and confirm to the scheme by way of affidavit
- (c) if 90% of the creditors in value agree and confirm to the scheme by way of affidavit
- (d) None of the above

9. When can an application be made to Tribunal for constitution of a winding up committee to assist and monitor the progress of liquidation proceedings by the Company Liquidator in carrying out the function?

- (a) Within two weeks from the date of passing of winding up order
- (b) Within three weeks from the date of passing of winding up order
- (c) Within four weeks from the date of passing of winding up order
- (d) Within six weeks from the date of passing of winding up order

10. A Ltd, appointed Mr. A & Mr. B as directors of the Company, by passing of single resolution for election of these two. Later on it came in the notice of the Company that there might be some confusion regarding the compliance of the applicable provisions. State the correct statement in the light of the Companies Act, 2013 as to the an appointment and to the validity of acts of said appointed directors ?

- (a) Void Appointment & acts of the directors are void ab-initio.
- (b) Void Appointment & acts of the directors are valid until defect in the appointment is shown to the Company.
- (c) Valid Appointment & so acts are also valid.
- (d) Appointment is valid subject to ratification by shareholder in general meeting.

11. Mr. Mahesh returned from abroad, was left unspent with the foreign currency USD 1,000. This amount can be retained with him –

- (a) for 60 days
- (b) for 90 days
- (c) for 120 days
- (d) for 180 days

12. RAB Bank Limited, a banking company, has defaulted in the payment of dues to their catering contractor. Can the contractor, as an operational creditor initiate insolvency process against the bank-

- (a) Yes, operational creditors are entitled
- (b) No, financial service providers are excluded
- (c) Yes, banking companies are covered under this code
- (d) No, catering is an excluded service under the Code

13. The time line of 180 days for the Corporate Insolvency Resolution process commences from the

- (a) Date of Debt
- (b) Date of preferring the application
- (c) Date of admission of application by NCLT
- (d) 90 days after the debt is due

14. ABC and Co, the tax consultants of X Limited, for which an interim resolution professional – Mr A, has been appointed under the Corporate Insolvency resolution process has refused to furnish information to Mr A on the grounds of client confidentiality. Are they right

- (a) Yes, they are right

- (b) No, the Code provides powers to the IRP to access all information from various parties
- (c) Partly right, they can do so only after consent of the directors
- (d) Mr A is not right in even asking for this information

15. Operational creditors are entitled to receive notice of meetings of Committee of creditors if their aggregate dues are not less than % of the total debts of the corporate debtor

- (a) 20%
- (b) 10%
- (c) 15%
- (d) 5%

16. According to the Companies Act, 2013, the draft minutes of a Board meeting held through audio visual means shall be circulated among all the directors within Of the meeting:

- (a) 10 days
- (b) 15 days
- (c) 30 days
- (d) One month

17. Minimum threshold prescribed for applicability of SARFAESI Act on NBFCs is –

- (a) 1 crore
- (b) 10 crore
- (c) 100 crore
- (d) 500 crore

18. Drug trafficking is a punishable offence in India. Suppose, Mr. X & Mr. Y, are involved in drug trafficking including imported drugs trafficking. Under which Act, Mr. X & Mr. Y can be prosecuted?

- (a) Narcotic Drugs and Psychotropic Substances (NDPS) Act, 1985
- (b) Prevention of Money Laundering Act, 2002
- (c) Foreign Exchange Management Act, 1999
- (d) Offences under the Unlawful Activities (Prevention) Act, 1967

19. Ruby Ltd. filed an application to the NCLT stating that corporate insolvency resolution process against him, cannot be completed within the 90 days under the fast track insolvency resolution process. Considering application and on being satisfied, NCLT ordered to extend the period of such process by 30 days. Later, again Ruby Ltd. initiated an application for further extension of time period of insolvency process by 15 days. Decide in the given situation, whether NCLT, can extend timelines by further 15 days.

- (a) Yes, because extension of duration in toto, is not exceeding 45 days.
- (b) Yes, depends of the facts, if it is justified, NCLT may extend the timelines.

- (c) No, extension of the fast track insolvency resolution process shall not granted more than once.
- (d) (a) & (b)

20. KDS Agro Pvt. Ltd., a newly incorporated company has not mentioned the names of first directors of the company in its Articles of Association. Referring the provisions of the Companies Act, 2013, who shall be deemed to be the first directors of the company?

- (a) The members of the company shall be deemed to be the first directors of the company.
- (b) The subscribers of the company shall be deemed to be the first directors.
- (c) None shall be deemed to be the first directors of the company.
- (d) The shareholders shall appoint first directors in the General Meeting.

21. The turnover of XYZ Ltd. as on the last date of latest audited financial statements is 400 crore rupees. An Intermittent vacancy of the women director arises on 15th June, 2018 in the company. The immediate Board meeting was held on 14th October, 2018. The vacancy of the women director shall be filled up by-----:

- (a) Appointment of women director is not mandatory
- (b) 14th August, 2018
- (c) 14th September, 2018
- (d) 14th October, 2018

22. In compliance to the Companies Act, 2013, at least one woman director shall be on Board of such class or classes of companies as may be prescribed. Ms. Riya is keen to hold the office of woman director in a company. She has selected some companies in which there is a vacancy for the woman director. Advice Ms. Riya in selecting the companies which are mandatorily required to appoint a woman director:

- (a) PQR Limited which is a unlisted company and having paid up share capital of one 50 crore rupees as per the last date of latest audited financial statements.
- (b) ABC Limited which is a listed company and having a turnover of 150 crore rupees as per the last date of latest audited financial statements.
- (c) XYZ Limited which is a unlisted company and having a turnover of 350 crore rupees as per the last date of latest audited financial statements
- (d) Both in ABC Limited and XYZ Limited

23. XYZ Limited is an unlisted company engaged in manufacturing of fabrics. The turnover of the company as on the last date of latest audited financial statements is Rs. 100 Crore. The company is having 7 directors in its Audit Committee. Advice the company by choosing the correct option for the company regarding requirement of appointment of independent director and minimum number of independent directors if required?

- (a) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is two.

- (b) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is three.
- (c) The appointment of independent directors is mandatorily required under XYZ Limited and the minimum number of independent directors is four.
- (d) The appointment of independent directors is not mandatorily required under XYZ Limited.

24. Amar Textiles Limited, a listed company, engaged in the production of furniture and fittings in Pune. The company is having 50,000 small shareholders. The small shareholders wanted to elect a small shareholders' directors amongst themselves so that their issues are resolved during the Board meetings at the earliest. 500 small shareholders served a notice for appointment of a small shareholder in the Board. Decide the validity of the notice by the small shareholders:

- (a) Notice by 500 small shareholders is valid and company may appoint a small shareholder director.
- (b) Notice by 500 small shareholders is not valid and company may appoint a small shareholder 'director on the requisition of 1000 small shareholders.
- (c) Notice by 500 small shareholders is not valid and company may appoint a small shareholder director on the requisition of 5000 small shareholders.
- (d) Small shareholders director cannot be appointed in the company as the company doesn't fulfil the condition for appointment of small shareholders' director.

25. Stylish Technology Limited engaged in the manufacturing of mobiles and chargers. The company's Board of Directors consist of 8 directors i.e. Mr. Ram (Director), Mr. Shyam (Director), Mr. Mohan (Director), Mr. Vijay (Director), Mr. Naresh (Director), Mr. Ashish (Independent Director), Mr. Neeraj (Independent Director) and Mr. Anil (Small shareholders' director). Calculate the number of directors to retire at Annual General Meeting held on 15th September, 2018.

- (a) One
- (b) Two
- (c) Three
- (d) Four

26. Prince Ltd. desires to appoint an additional director on its Board of directors. The Articles of the company confer upon the Board to exercise the power to appoint such a director. As such M is appointed as an additional director on 12th December, 2017. The Annual General Meeting ought to have been held on 17th August, 2018 but adjourned to 5th October, 2018. Decide the date upto which M can continue as director in Prince Ltd.?

- (a) 17th August, 2018
- (b) 30th September, 2018
- (c) 5th October, 2018
- (d) The appointment of additional director is not valid.

27. Mr. Q, a Director of PQR Limited proceeding on a foreign tour for six months, appointed Mr. Y as an alternate director to act for him during his absence. The articles of the company provide for

appointment of alternate directors. Mr. Q claims that he has a right to appoint alternate director. Examine the validity of Mr. Q claim.

- (a) Claim by Mr. Q is valid as the Articles provide for appointment of alternate directors
- (b) Claim by Mr. Q is not valid as the authority to appoint alternate director has been vested in the board of directors only and that too subject to empowerment by the Articles
- (c) Mr. Y cannot be appointed as alternate director as Mr. Q proceeds on a foreign tour for six months only
- (d) None of the above

28. XYZ Limited is a listed public company having a paid-up capital of twenty crore rupees as on 31st March, 2017 and a turnover of one hundred fifty crore rupees during the year ended 31st March, 2017. The total number of directors is thirteen. State the minimum number of independent directors that the company should appoint.

- (a) 2
- (b) 3
- (c) 4
- (d) 5

29. Seafood Limited, a public limited company was incorporated on 1st April, 2016. The company has conducted four Board Meetings during the financial year 2016-17 i.e. on 6th April, 2016, 28th August, 2016, 30th September, 2016 and 30th March, 2017. Decide on the validity of the frequency of the Board Meeting:

- (a) There is no contravention of the provision related to holding of board meeting as 4 board meetings has been held during the year.
- (b) There is no contravention of the provision related to holding of board meeting as the first board meeting was held within 30 days of incorporation.
- (c) There is a contravention in respect of the conduct of the board meetings as gap between two consecutive board meetings (6th April and 28th August) is 143 days and gap between two consecutive board meetings (30th September and 30th March) is 181 days.
- (d) There is a contravention in respect of the conduct of the board meetings as gap between two consecutive board meetings (6th April and 28th August) is 123 days and gap between two consecutive board meetings (30th September and 30th March) is 141 days.

30. There are 9 directors in a company and out of which 2 officers of the directors have fallen vacant. What will be the quorum for the board meeting?

- (a) 2
- (b) 3
- (c) 4
- (d) 5

31. The Board of Directors of ABV Limited is desirous to delegate some of its powers to its committee of directors as they find it difficult to manage everything on their own. The Board of Directors are confused between the various powers of the Board as which power can be delegated or not. Advise the Board amongst the following powers which they can delegate to its committee of directors:
- To authorise buy-back of securities
 - To invest the funds of the company
 - To diversify the business of the company
 - To take over a company or acquire a controlling or substantial stake in another company
32. The Board of directors of Very Well Ltd., wants to contribute Rs. 60,000 to a charitable organization during the financial year 2017-2018. During the financial year 2015-2016, the company suffered losses. The directors are contemplating to contribute the said amount in spite of the losses. In this connection, state whether the directors can do so?
- No, Very Well Ltd. cannot contribute Rs. 60,000 in 2017-2018 as the company suffered losses in 2015-2016.
 - No, the board of directors are not authorized to contribute to bonafide charitable and other funds.
 - No, Permission of the company in general meeting shall be required for contribution to bonafide charitable and other funds
 - Yes, Very Well Ltd. Can contribute Rs. 60,000 to a charitable organization inspite of losses in 2015-2016 provided it is to a bonafide charitable fund.
33. A financial creditor, FC through an assignment agreement, assigned here the debt to the X trust. X trust filed the petition for initiation of corporate Insolvency resolution process (CIRP) against Corporate debtor, CR. State the correct statement with respect to the competency of the X trust in the filing of the petition in the above situation-
- X Trust is not a competent applicant as per section 6 of the IBC, 2016
 - X Trust is being authorized by the FC to file an application
 - X Trust in the capacity of financial creditor can file a valid petition.
 - None of the above
34. As per the Insolvency & Bankruptcy Code, 2016, resolution plan is prepared by ----- is submitted to -----
- Committee of Creditors, Adjudicating Authority
 - Resolution applicant, committee of creditors
 - Resolution applicant, Resolution Professional
 - Committee of Creditors, Resolution Professional
35. Committee of creditors of Corporate debtors was constituted on 17.3.2018. Time limit, within which the first meeting of committee of creditors should be held, is -----.
- 20.3.2018
 - 22.3.2018

- (c) 24.3.2018
- (d) 31.3.2018

36. Raghav plan to visits USA. He can carry foreign currency in cash for travel abroad-

- (a) USD 2000
- (b) USD 3000
- (c) USD 5000
- (d) USD 10,000

37. Capable Limited appoints Mr. Vikas as the Managing director of the company. The board of directors entrusted him with some powers. Mr. Vikas is not ready to do such administrative acts authorised by the Board of Directors keeping in view that he shall be entrusted with substantial powers of the management. Decide the acts which Mr. Vikas can undertake:

- (a) To draw and endorse any cheque on the account of the company in any bank
- (b) To sign the financial statements of the company
- (c) To draw and endorse any negotiable instrument
- (d) to Sign any certificate of share

38. Mr. X was appointed as Managing Director for life by the Articles of Association of a private company incorporated on 1st June, 2018. Examine in this connection, Can Mr. X be appointed for life as Managing Director?

- (a) Yes, Mr. X can be appointed as managing director for life in a private company
- (b) No, Mr. X cannot be appointed as managing director for life in private company as only public companies are allowed to appoint managing director for life
- (c) No, Mr. X cannot be appointed as managing director for life in private company as term of managing director cannot exceed five years at a time
- (d) No, Mr. X cannot be appointed as managing director for life in private company as private companies are not allowed to appoint managing director

39. Green Farms Private Limited was incorporated on 12th December 2013. Ms. Nidhi Shah, Chartered Accountant, Pune was proposed to be appointed as their first auditor through proposal letter dated 16th December 2013. The Board has requested her to give consent to act as Auditor of the Company. However the Auditor has failed to give her consent till 16th January 2014 and hence the auditor cannot be appointed by the Board. Kindly suggest a way forward for appointment of first auditor of the Company from the following options:

- a) Company shall seek approval from Central Government for appointment of first auditor;
- b) Company shall appoint the first Auditor in the subsequent Board Meeting of Directors;
- c) Board shall inform the members who shall at an extra ordinary general meeting to appoint first auditor within prescribed time;

d) None of the above.

40. XP Ltd declared 12% dividend to its Equity Shareholders. However, Company missed to transfer unpaid dividend to bank account even after 40 days from declaration of Dividend. In such case how much interest will be payable?

- a) 8% p.a.
- b) 16% p.a.
- c) 10% p.a.
- d) 12% p.a.

41. Mr. Narayan Shastri was appointed as an Additional Director of XYZ Limited in July, 2015. Immediately after his appointment in July, 2015, on behalf of the Company he entered into an agreement with NY Private Limited for supplies of raw material. Later he was regularized as a Director in ensuing annual general meeting. In 2016 he signed Contract with Laxmi vendors. At the end of year, in December 2016, management came to know that his appointment was not valid as he was disqualified to act as a Director of any Company. He signed one more agreement in January 2017 with Saraswati vendors. In such scenario, what will be the status of contract/agreements he signed on behalf of XYZ Limited?

- a) All agreement/ contracts will become invalid;
- b) All agreement/ contracts will be valid;
- c) All agreement/ contracts before December 2016 will be valid;
- d) All agreement/ contracts before December 2016 will be invalid;

42. Mr. N, Managing Director resigned w.e.f. 13th March, 2014 due to preoccupation. Mr. M, Whole Time Director and Mr. O, Director, resigned w.e.f. 20th March, 2015 as a part of reconstruction of the company. Mr. M and Mr. O made an application to the Board for compensation for loss of office. When Mr. N came to know that he also asked for compensation. Who will be eligible for such compensation?

- a) Mr. N;
- b) Mr. M;
- c) Mr. N & Mr. M;
- d) Mr. M & Mr. O;

43. Mr. Rajesh Jathar and Mr. Veena Jathar are the shareholders of NY Private Limited. Mr. Jathar is out of Country for business purpose. They have to have a Board meeting through video conference to comply with the requirements. Which of the following items they cannot discuss in such meeting?

- a) Convening of General meeting.
- b) Approval of Board's report.
- c) Appointment of Managing Director.
- d) Transfer of Shares.

44. PQR Limited and LMN Limited have proposed Scheme of Amalgamation between them under Section 232 of the Companies Act 2013. They are seeking your advice on which of the following approvals can be asked for in the petition to be filed before NCLT for the proposed scheme.

The Petition for proposed Scheme of Amalgamation can seek approval for –

- a) Change in Main Object Clause of Memorandum of Association;
 - b) Reduction of Share Capital;
 - c) Dissolution of the Transferor Company without winding up;
 - d) All of the above.
45. Members of Agricultural Co-operative Society are now planning to form a Producer Company under Part IX A of the Companies Act, 1956 now known as Companies Act 2013. Kindly suggest which of the following combination can form a Producer Company under this act –
- a) Ten or more producers (individuals);
 - b) Five or more producer institutions;
 - c) Combination of above two;
 - d) None of the above.
46. You are a Whole Time Director of Choco-chips Private Limited who wishes to appoint Mr. Vanilla Sequera as its Managing Director who has attained the age of 72 years. However, the Board has got to know about the fact that no company shall appoint or continue the employment of any person as managing director, whole-time director or manager who is below the age of twenty-one years or has attained the age of seventy years. You are requested by the board to evaluate the situation and suggest on whether he can be appointed as Managing Director?
- a) Yes, he can be appointed as MD by the Board of Directors;
 - b) No, he cannot be appointed as MD at all;
 - c) Yes, he can be appointed as MD by shareholders through Special Resolution;
 - d) Yes, he can be appointed as MD by making an application to the NCLT.
47. ABP Ltd. is a Company having paid up Capital of INR 100,000,000. It needs to appoint key managerial personnel. It can use combination of:
- i) Chief Executive officer, Company Secretary and Manager
 - ii) Chief Executive officer, Company Secretary and Chief Financial officer
 - iii) Managing Director, Company Secretary and Manager
 - iv) Managing Director, Company Secretary and Chief Executive officer
- Which options are available for the Company?
- a) (i) (ii) & (iii)
 - b) (ii) (iii) & (iv)

- c) (i) (ii) & (iv)
- d) (i) (iii) & (iv)

48. Mr. A was appointed as a Manager of PQR Ltd for the period of five years on 20th June, 2015. Considering his performance and dedication, before completion of his tenure, management decided to re-appoint him as a manager. On which date his re-appointment will be considered valid?
- a) 24th June 2019
 - b) 1st February 2019
 - c) 12th March 2018
 - d) 10th September 2018
49. Mr. M is a businessman and he owns number of companies. As of now, he is Director in 21 Companies. As his number of Directorship contravenes the provision of the Act, his consultant have asked him to resign from 2 Companies. However there is one more condition regarding number of Directorship in Public Companies. What is that Condition?
- a) maximum number of public companies in which a person can be appointed as a director shall not exceed Ten;
 - b) maximum number of public companies in which a person can be appointed as a director shall not exceed Five;
 - c) maximum number of public companies in which a person can be appointed as a director shall not exceed Fifteen;
 - d) maximum number of public companies in which a person can be appointed as a director shall not exceed Twenty;
50. Mr. Nagarjuna decided to resign from MGT Private Limited due to preoccupation. He sent his resignation letter dated 12th June, 2017 to the Company stating that he will resign w.e.f. 15th June, 2017. Due to nonreceipt of any communication from the Company he dropped a mail on 17th June, 2017, to confirm whether Company has received his letter. Finally, company received his letter on 25th June, 2017. In this case, from which date his resignation will be effective?
- a) 12th June, 2017
 - b) 15th June, 2017
 - c) 17th June, 2017
 - d) 25th June, 2017

Solution

1.	(b)	11	(d)	21	(d)	31	(b)	41	(c)
2	(b)	12	(b)	22	(d)	32	(d)	42	(b)
3	(c)	13	(c)	23	(c)	33	(c)	43	(b)
4	(d)	14	(b)	24	(b)	34	(c)	44	(d)
5	(d)	15	(b)	25	(a)	35	(c)	45	(a)
6	(d)	16	(b)	26	(b)	36	(b)	46	(c)
7	(b)	17	(d)	27	(b)	37	(b)	47	(c)
8	(c)	18	(b)	28	(d)	38	(c)	48	(a)
9	(b)	19	(c)	29	(c)	39	(c)	49	(a)
10	(b)	20	(b)	30	(b)	40	(d)	50	(d)

Paper 4: Corporate and Allied Laws (Old Course)

1. Mayur Textiles Private limited was incorporated on 23rd October, 2017. As per the compliance requirement, Company shall hold its annual general meeting(AGM) within 9 months from the date of closure of financial year and file financial statements with MCA within due date. What is the due date for holding a Board meeting for approval of financial statements?
 - (a) 30th September, 2018 ;
 - (b) 30th December, 2018;
 - (c) 31st December, 2018;
 - (d) 31st March, 2019;

2. Mr. Narayan Shastri was appointed as an Additional Director of XYZ Limited in July, 2015. Immediately after his appointment in July, 2015, on behalf of the Company he entered into an agreement with NY Private Limited for supplies of raw material. Later he was regularized as a Director in ensuing annual general meeting. In 2016 he signed Contract with Laxmi vendors. At the end of year, in December 2016, management came to know that his appointment was not valid as he was disqualified to act as a Director of any Company. He signed one more agreement in January 2017 with Saraswati vendors. In such scenario, what will be the status of contract/agreements he signed on behalf of XYZ Limited?
 - (a) All agreement/ contracts will become invalid;
 - (b) All agreement/ contracts will be valid;
 - (c) All agreement/ contracts before December 2016 will be valid;
 - (d) All agreement/ contracts before December 2016 will be invalid;

3. Noyal OPC was incorporated in 2014. Company's first financial statements were closed on March 2015. Just like any other company, Noyal OPC has to file its financials statements with registrar. Within how much time from closure of accounts, Noyal OPC has to do such filing?
 - (a) 3 months
 - (b) 6months
 - (c) 120 days
 - (d) 180 days

4. Mr. N, Managing Director resigned w.e.f. 13th March, 2014 due to preoccupation. Mr. M, Whole Time Director and Mr. O, Director, resigned w.e.f. 20th March, 2015 as a part of reconstruction of the company. Mr. M and Mr. O made an application to the Board for compensation for loss of office. When Mr. N came to know that he also asked for compensation. Who will be eligible for such compensation?
 - (a) Mr. N;
 - (b) Mr. M;
 - (c) Mr. N & Mr. M;
 - (d) Mr. M & Mr. O;

5. Mr. A is an independent director and he wants to appoint an alternate director as he is leaving country for few months. Which one of the below can be appointed as his alternate director? (4 marks)
 - (a) Mr. B who is an Alternate Director for Mr.X;
 - (b) Mr. C who is qualified to be appointed as independent Director;
 - (c) Mr. D who is qualified to be appointed as executive Director;
 - (d) Mr. E who is ready to be appointed an Alternate Director for 1.5 months;

6. XYZ Limited Company needs to appoint an independent Director of the company. The company has a gold jewellery business. Company shortlisted Mr. Bajaj, Mr. Dharamdas and Mr. Anmol Parekh for the vacant post. Mr. Bajaj was an auditor of the subsidiary company of the XYZ Limited Company. But he resigned from his post two years ago. Mr. Dharamdas who is a professional goldsmith and has an experience of more than 20 years. Mr. Anmol Parekh has a pecuniary relation with the promoters, 3 years preceding the current financial year. Who can be appointed as an Independent Director from the above mentioned people?
 - a) Mr. Bajaj
 - b) Mr. Dharamdas
 - c) Mr. Anmol Parekh
 - d) Mr. Dharamdas and Mr. Anmol Parekh

7. AB Institute is authorised by Central government to maintain the databank of preceding Directors. The institute has prepared list of 32 independent directors who can be appointed by the companies. Infoline Company wants to appoint 3 Directors on the basis of this data. The Company decided to appoint the Independent Director on May 9, 2017. The next general meeting is on May 18, 2017. What is the process of appointment for the director?
 - a) The appointment of the independent director shall be approved at the Board meeting of the company before May 18, 2017
 - b) The appointment of the independent director shall be approved by the company in general meeting
 - c) The appointment of the independent director shall be approved by the company before general meeting by May 17, 2017
 - d) The appointment of the independent director shall be approved by the company within 3 months of his appointment.

8. MNO, a Public Ltd. incorporated on June 11, 2007. It selected Mr. Ajay, Mr. Rohit, Mr. Rajan and Mr. Ravi to be appointed as Director of the company in general meeting on August 15, 2007. All the four directors gave their consent by September 12, 2007. But Mr. Rajan and Mr. Rohit were not having the director identification number. They both applied for the director identification number. By what time they will be able to get their DIN?
 - a) 30 days
 - b) 1 month
 - c) 2 month

- d) 3 month
9. Shradha Pvt. Ltd. Company is engaged in manufacturing of rubber tyres. The company was incorporated in the year 2001 with its head office located at Chennai. Mr. Rakesh Kumar was the Director of the company. He committed a fraud of around Rs. 1 Crore. He was terminated by the company for his act. After termination he shifted to Delhi. Mr. Kumar applied for a new Director Identification number with his Delhi based address. Will he be allotted a new DIN?
- Yes, since he changed his state so he can be allotted a new DIN by the State government
 - No, he cannot be allotted a new DIN because it is prohibited by the Act.
 - Yes, he can apply for a new DIN with the prior permission of Central government
 - No, he has to wait for three years before applying for a new DIN
10. Mr. X is a director of a company. He is hospitalised a day before a meeting. As per the Company Act, can Mr. X attend this meeting called for company merger via video conferencing?
- Yes, he can only attend the meeting
 - Yes, he can attend the meeting but has no right to vote
 - No, he cannot attend the meeting
 - Not Sure
11. Without the approval of Central Government a person cannot be appointed as a Manager or full time Director if he is continuous resident of India for:
- 3 months prior to his appointment
 - 6 months prior to his appointment
 - 8 months prior to his appointment
 - 12 months prior to his appointment
12. Mr. B has got his DIN allotted to him on May 6, 2017. By what date he should intimate his DIN to his Company?
- By June 6, 2017
 - By June 5, 2017
 - By July 6, 2017
 - By July 5, 2017
13. Lockworth Safety Gears Private Limited pays remuneration to its Directors on yearly basis. Company has a Whole Time Director on Board. Currently they appointed Mr. X as a Managing Director of the Company. Now Company has to keep in mind that overall remuneration to the Directors including managing director, whole time director and manager shall not exceed maximum cap limit mentioned under the act. If there is more than one managing director/whole time director/ manager, how much maximum remuneration allowed in a financial year
- 5% of net profits;

- (b) 10% of net profits;
 - (c) 11% of net profits;
 - (d) 15% of net profits;
14. XYZ , a listed Public Company, having paid up share capital of around Rs. 12 Crore. How many independent directors should be there when the total numbers of directors are 13?
- (a) 2
 - (b) 4
 - (c) 5
 - (d) 6
15. A financial creditor , FC through an assignment agreement, assigned here the debt to the X trust. X trust filed the petition for initiation of corporate Insolvency resolution process (CIRP) against Corporate debtor , CD. State the correct statement with respect to the competency of the X trust in the filing of the petition in the above situation-
- (a) X Trust is not a competent applicant as per section 6 of the IBC, 2016
 - (b) X Trust is being authorized by the FC to file an application
 - (c) X Trust in the capacity of financial creditor can file a valid petition.
 - (d) None of the above
16. ABC, a Private Ltd., with 10 Board of directors was served notice of the board Meeting, 7 days prior to said meeting on their postal addresses. Mr. M is hospitalised due to some severe illness. Mr. Y is going to London before the Board meeting. Mr. X and Mr. B went to Australia for some company business. Mr. A is busy with his daughter's marriage and unable to attend the meeting. Mr. E's mother is hospitalised so he is busy taking care of his mother but he assures to attend the meeting via video conferencing. Mr. D and Mr. P were scheduled to arrive for the meeting at 2 pm on the same day; however the flight got delayed by 8 hours. Mr. G and Mr. H are in the town and available for the scheduled board meeting. Could the Board meeting be held?
- (a) The meeting can be held in the evening and Director D & Director P can join later on
 - (b) The meeting cannot be held because of the quorum is incomplete
 - (c) The quorum is complete and the directors can proceed with the meeting
 - (d) Meeting is postponed.
17. Find out the correct statement?
- (a) Resolution by circulation shall be deemed to have been duly passed by the board or the committee member when such resolution is passed by one third of the total majority of the member present and voting on the resolution
 - (b) Resolution by circulation shall be deemed to have been passed by the board or the committee, when such resolution have been circulated in draft with the necessary paper, to all the directors or member of committee and has been approved by majority ,who are entitled to vote on the resolution

- (c) Resolution by circulation shall be deemed to have been passed by the board or the committee, when such resolution have been circulated in draft together with the necessary paper, to all the directors or member of committee and has been approved by two third of the majority of director who are entitled to vote on the resolution
 - (d) Resolution by circulation shall be deemed to have been passed by the board or the committee, when such resolution circulated in draft with the necessary paper, to all the directors or member and has been approved by two third of the majority of members who are entitled to vote on the resolution
18. Find out the correct statement?
- (a) An audit committee with two third majorities of members and chairperson are required to have the ability to read and understand the financial statements.
 - (b) Two director and one independent director alongwith the chairperson in the audit committee shall have the ability to read and understand the financial statements
 - (c) Only one third member of the audit committee and its chairperson shall have the ability to read and understand the financial statements
 - (d) Minimum of three directors with independent directors forming a majority, constituting Audit Committee shall have the ability to read and understand the financial statements.
19. AB, a listed Company was constituted in 2012. It has 8 directors Mr. Neeraj, Mr. Kapil, Mr. Ram, Mr. Shyam, Mr. Atul, Mr. Bakshi, Mr. Raheem and Mr. Das. Out of these directors Mr. Ram, Mr. Shyam, Mr. Atul and Mr. Neeraj has a good financial knowledge. An audit committee constituted by the company included Mr. Kapil, Mr. Das, Mr. Atul and Mr. Raheem as its chairpersons. After the commencement of the Companies Act, 2013, it was required for every audit committee of a company existing before the commencement of this Act, shall be reconstituted within one year of such commencement. Find out the correct statement, in the light of the given situation?
- (a) The committee needs to reconstitute as the majority members are not experienced in the field of Finance
 - (b) The committee needs to reconstitute as two third of its members are not experienced in the field of Finance
 - (c) The committee needs to reconstitute as 50 percent of its members are not experienced in the field of Finance
 - (d) The committee needs to reconstitute as majority of board members are not included in it.
20. Rameshwaram Pvt. Ltd. Company was incorporated on January 12, 2018. The company needs to pass a resolution for the purchase of raw material. The copy of the resolution alongwith all the necessary documents were circulated to all the directors. The company has 10 directors Mr. Ram, Mr. Kamal, Mr. Raj, Mr. Firoz, Mrs. Nupur, Mr. Bharat, Mr. Vinod, Mrs. Rekha, Mr. Kapoor and Mr. Jeevan.
- Mr. Raj and Mr. Ram were abroad at the time of passing the resolution. Mr. Ram, Mr. Raj, Mrs. Nupur and Mr. Kamal took objection before the chairman against the passing of the resolution and want to discuss it further in the meeting. Find out the correct statement?

- (a) Since the resolution is passed by majority of the members there is no need for further discussion on it as it was duly circulated to all the directors.
- (b) Mr. Ram and Mr. Raj cannot raise any objection as they were out of India while passing the resolution.
- (c) The objection is sustainable as it is made by one third of the members of the board and the meeting is held for further discussion
- (d) The objection is sustainable as it is made by two third of the members of the board and the meeting is held for further discussion

Solution

1	(c)	2	(c)	3	(d)	4	(b)
5	(b)	6	(d)	7	(b)	8	(b)
9	(b)	10	(c)	11	(d)	12	(a)
13	(c)	14	(c)	15	(a)	16	(c)
17	(b)	18	(d)	19	(a)	20	(c)

Paper 4: Corporate and Allied Laws (Old Course)

1. Mayur Textiles Private limited was incorporated on 23rd October, 2017. As per the compliance requirement, Company shall hold its annual general meeting(AGM) within 9 months from the date of closure of financial year and file financial statements with MCA within due date. What is the due date for holding a Board meeting for approval of financial statements?

- a) 30th September, 2018 ;
- b) 30th December, 2018;
- c) 31st December, 2018;
- d) 31st March, 2019;

2. Mr. Narayan Shastri was appointed as an Additional Director of XYZ Limited in July, 2015. Immediately after his appointment in July, 2015, on behalf of the Company he entered into an agreement with NY Private Limited for supplies of raw material. Later he was regularized as a Director in ensuing annual general meeting. In 2016 he signed Contract with Laxmi vendors. At the end of year, in December 2016, management came to know that his appointment was not valid as he was disqualified to act as a Director of any Company. He signed one more agreement in January 2017 with Saraswati vendors. In such scenario, what will be the status of contract/agreements he signed on behalf of XYZ Limited?

- a) All agreement/ contracts will become invalid;
- b) All agreement/ contracts will be valid;
- c) All agreement/ contracts before December 2016 will be valid;
- d) All agreement/ contracts before December 2016 will be invalid;

3. Noyal OPC was incorporated in 2014. Company's first financial statements were closed on March 2015. Just like any other company, Noyal OPC has to file its financials statements with registrar. Within how much time from closure of accounts, Noyal OPC has to do such filing?

- a) 3 months
- b) 6months
- c) 120 days
- d) 180 days

4. Mr. N, Managing Director resigned w.e.f. 13th March, 2014 due to preoccupation. Mr. M, Whole Time Director and Mr. O, Director, resigned w.e.f. 20th March, 2015 as a part of reconstruction of the company. Mr. M and Mr. O made an application to the Board for compensation for loss of office. When Mr. N came to know that he also asked for compensation. Who will be eligible for such compensation?

- a) Mr. N;
- b) Mr. M;
- c) Mr. N & Mr. M;
- d) Mr. M & Mr. O;

5. Mr. A is an independent director and he wants to appoint an alternate director as he is leaving country for few months. Which one of the below can be appointed as his alternate director? (4 marks)

- a) Mr. B who is an Alternate Director for Mr.X;
- b) Mr. C who is qualified to be appointed as independent Director;
- c) Mr. D who is qualified to be appointed as executive Director;
- d) Mr. E who is ready to be appointed an Alternate Director for 1.5 months;

6. XYZ Limited Company needs to appoint an independent Director of the company. The company has a gold jewellery business. Company shortlisted Mr. Bajaj, Mr. Dharamdas and Mr. Anmol Parekh for the vacant post. Mr. Bajaj was an auditor of the subsidiary company of the XYZ Limited Company. But he resigned from his post two years ago. Mr. Dharamdas who is a professional goldsmith and has an experience of more than 20 years. Mr. Anmol Parekh has a pecuniary relation with the promoters, 3 years preceding the current financial year. Who can be appointed as an Independent Director from the above mentioned people?

- a) Mr. Bajaj
- b) Mr. Dharamdas
- c) Mr. Anmol Parekh
- d) Mr. Dharamdas and Mr. Anmol Parekh

7. AB Institute is authorised by Central government to maintain the databank of preceding Directors. The institute has prepared list of 32 independent directors who can be appointed by the companies. Infoline Company wants to appoint 3 Directors on the basis of this data. The Company decided to appoint the Independent Director on May 9, 2017. The next general meeting is on May 18, 2017. What is the process of appointment for the director?

- a) The appointment of the independent director shall be approved at the Board meeting of the company before May 18, 2017
- b) The appointment of the independent director shall be approved by the company in general meeting
- c) The appointment of the independent director shall be approved by the company before general meeting by May 17, 2017
- d) The appointment of the independent director shall be approved by the company within 3 months of his appointment.

8. MNO, a Public Ltd. incorporated on June 11, 2007. It selected Mr. Ajay, Mr. Rohit, Mr. Rajan and Mr. Ravi to be appointed as Director of the company in general meeting on August 15, 2007. All the four directors gave their consent by September 12, 2007. But Mr. Rajan and Mr. Rohit were not having the director identification number. They both applied for the director identification number. By what time they will be able to get their DIN?

- a) 30 days
- b) 1 month
- c) 2 month
- d) 3 month

9. Shradha Pvt. Ltd. Company is engaged in manufacturing of rubber tyres. The company was incorporated in the year 2001 with its head office located at Chennai. Mr. Rakesh Kumar was the Director of the company. He committed a fraud of around Rs. 1 Crore. He was terminated by the company for his act. After termination he shifted to Delhi. Mr. Kumar applied for a new Director Identification number with his Delhi based address. Will he be allotted a new DIN?

- a) Yes, since he changed his state so he can be allotted a new DIN by the State government
 - b) No, he cannot be allotted a new DIN because it is prohibited by the Act.
 - c) Yes, he can apply for a new DIN with the prior permission of Central government
 - d) No, he has to wait for three years before applying for a new DIN
10. Mr. X is a director of a company. He is hospitalised a day before a meeting. As per the Company Act, can Mr. X attend this meeting called for company merger via video conferencing?
- a) Yes, he can only attend the meeting
 - b) Yes, he can attend the meeting but has no right to vote
 - c) No, he cannot attend the meeting
 - d) Not Sure
11. Without the approval of Central Government a person cannot be appointed as a Manager or full time Director if he is continuous resident of India for:
- a) 3 months prior to his appointment
 - b) 6 months prior to his appointment
 - c) 8 months prior to his appointment
 - d) 12 months prior to his appointment
12. Mr. B has got his DIN allotted to him on May 6, 2017. By what date he should intimate his DIN to his Company?
- a) By June 6, 2017
 - b) By June 5, 2017
 - c) By July 6, 2017
 - d) By July 5, 2017
13. Lockworth Safety Gears Private Limited pays remuneration to its Directors on yearly basis. Company has a Whole Time Director on Board. Currently they appointed Mr. X as a Managing Director of the Company. Now Company has to keep in mind that overall remuneration to the Directors including managing director, whole time director and manager shall not exceed maximum cap limit mentioned under the act. If there is more than one managing director/whole time director/ manager, how much maximum remuneration allowed in a financial year
- a) 5% of net profits;
 - b) 10% of net profits;
 - c) 11% of net profits;
 - d) 15% of net profits;
14. XYZ, a listed Public Company, having paid up share capital of around Rs. 12 Crore. How many independent directors should be there when the total numbers of directors are 13?
- a) 2
 - b) 4

- c) 5
- d) 6

15. A financial creditor, FC through an assignment agreement, assigned here the debt to the X trust. X trust filed the petition for initiation of corporate Insolvency resolution process (CIRP) against Corporate debtor, CD. State the correct statement with respect to the competency of the X trust in the filing of the petition in the above situation-

- a) X Trust is not a competent applicant as per section 6 of the IBC, 2016
- b) X Trust is being authorized by the FC to file an application
- c) X Trust in the capacity of financial creditor can file a valid petition.
- d) None of the above

16. ABC, a Private Ltd., with 10 Board of directors was served notice of the board Meeting, 7 days prior to said meeting on their postal addresses. Mr. M is hospitalised due to some severe illness. Mr. Y is going to London before the Board meeting. Mr. X and Mr. B went to Australia for some company business. Mr. A is busy with his daughter's marriage and unable to attend the meeting. Mr. E's mother is hospitalised so he is busy taking care of his mother but he assures to attend the meeting via video conferencing. Mr. D and Mr. P were scheduled to arrive for the meeting at 2 pm on the same day; however the flight got delayed by 8 hours. Mr. G and Mr. H are in the town and available for the scheduled board meeting. Could the Board meeting be held?

- a) The meeting can be held in the evening and Director D & Director P can join later on
- b) The meeting cannot be held because of the quorum is incomplete
- c) The quorum is complete and the directors can proceed with the meeting
- d) Meeting is postponed.

17. Find out the correct statement?

- a) Resolution by circulation shall be deemed to have been duly passed by the board or the committee member when such resolution is passed by one third of the total majority of the member present and voting on the resolution
- b) Resolution by circulation shall be deemed to have been passed by the board or the committee, when such resolution have been circulated in draft with the necessary paper, to all the directors or member of committee and has been approved by majority, who are entitled to vote on the resolution
- c) Resolution by circulation shall be deemed to have been passed by the board or the committee, when such resolution have been circulated in draft together with the necessary paper, to all the directors or member of committee and has been approved by two third of the majority of director who are entitled to vote on the resolution
- d) Resolution by circulation shall be deemed to have been passed by the board or the committee, when such resolution circulated in draft with the necessary paper, to all the

directors or member and has been approved by two third of the majority of members who are entitled to vote on the resolution

18. Find out the correct statement?

- a) An audit committee with two third majorities of members and chairperson are required to have the ability to read and understand the financial statements.
- b) Two director and one independent director alongwith the chairperson in the audit committee shall have the ability to read and understand the financial statements
- c) Only one third member of the audit committee and its chairperson shall have the ability to read and understand the financial statements
- d) Minimum of three directors with independent directors forming a majority, constituting Audit Committee shall have the ability to read and understand the financial statements.

19. AB, a listed Company was constituted in 2012. It has 8 directors Mr. Neeraj, Mr. Kapil, Mr. Ram, Mr. Shyam, Mr. Atul, Mr. Bakshi, Mr. Raheem and Mr. Das. Out of these directors Mr. Ram, Mr. Shyam, Mr. Atul and Mr. Neeraj has a good financial knowledge. An audit committee constituted by the company included Mr. Kapil, Mr. Das, Mr. Atul and Mr. Raheem as its chairpersons. After the commencement of the Companies Act, 2013, it was required for every audit committee of a company existing before the commencement of this Act, shall be reconstituted within one year of such commencement. Find out the correct statement, in the light of the given situation?

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Answer keys

1	(c)	6	(d)	11	(d)	16	(c)
2	(c)	7	(b)	12	(a)	17	(b)
3	(d)	8	(b)	13	(c)	18	(d)
4	(b)	9	(b)	14	(c)	19	(a)
5	(b)	10	(c)	15	(a)	20	(c)

Paper 6: Information Systems Control and Audit (Old Course)

1. Arrange in chronological order of their assessment.
 - a. Risk
 - b. Threat
 - c. Vulnerability
 - d. Impact
 - (a) a,b,c,d
 - (b) c,b,a,d
 - (c) d,c,b,a
 - (d) c,b,d,a
2. Complete the sentence. " _____ " is not a RISK management strategy.
 - (a) Define
 - (b) Eliminate
 - (c) Share
 - (d) Mitigate
3. COBIT 5 principles include all except,
 - (a) Meeting Stakeholder Needs
 - (b) Covering Enterprise End To End
 - (c) Separating Governance From Management
 - (d) Enabling Better Controls
4. Creating a Governance, Risk and Compliance (GRC) framework is responsibility of _____.
 - (a) Management
 - (b) Auditors
 - (c) Board of Directors (BoD)
 - (d) Auditor and BoD
5. Best definition to define a HUMAN being in terms of System.
 - (a) Physical, Probabilistic, Manual, Close
 - (b) Physical, Probabilistic, Manual, Close / Open
 - (c) Physical, Probabilistic, Automatic, Close
 - (d) Physical, Probabilistic, Manual, Open

6. Moving the Information System triangle from TOP to BOTTOM, kindly arrange in sequence which system user shall encounter first to last.
- (a) MIS, DSS, ESS
 - (b) TPS, KMS, DSS, EIS
 - (c) EIS, DSS, KMS, TPS
 - (d) TPS, KMS, DSS, MIS
7. A Company ABC Ltd. is facing trouble paying incentive to its sales representatives. The incentive is paid on the basis of sales turnover achieved region-wise. Company has appointed you as a consultant asking your input as to which type of system they need to create to solve the problem. Please guide.
- (a) MIS
 - (b) EIS
 - (c) TPS
 - (d) ESS
8. Sales persons at BIG BAZAR use bar code scanners at the time of billing. This system of reading bar codes for billing can be best classified as _____.
- (a) TPS
 - (b) OAS
 - (c) MIS
 - (d) ESS
9. An accountant changes the voucher dates in TALLY without proper authority and sanction by management. This act by accountant shall be best classified as breach of which key principle?
- (a) Integrity
 - (b) Confidentiality
 - (c) Availability
 - (d) Confidentiality, Availability and Integrity.
10. In an accounting system, an accountant has rights to create as well as modify vouchers. This feature raises the risk assessment by auditor to higher level. As an auditor, you need to define which principle has not been followed?
- (a) Confidentiality

- (b) Segregation of Duty
- (c) Availability
- (d) Integrity

11. TALLY accounting software gives a warning when cash balance may turn negative on updating a voucher.

This is good example of _____.

- (a) Compensatory Control
- (b) Detective Control
- (c) Corrective Control
- (d) Preventive Control

12. Security guard at an ATM is an example of _____.

- (a) Compensatory Control, Logical Control
- (b) Detective Control, Physical Control
- (c) Preventive Control, Physical
- (d) Corrective Control, Logical Control

13. To use a GAS based fire suppression system, what needs to be done first.

- (a) Call Police
- (b) Call Medics
- (c) Evacuate Humans
- (d) Remove Computers

14. Business Continuity Planning by nature is a _____.

- (a) Compensatory Control
- (b) Detective Control
- (c) Corrective Control
- (d) Preventive Control

15. A large company is in process of creating a BCP framework. The Board of Directors have appointed you as a BCP consultant. Board has asked you to justify / reason out the main objective of BCP is to prevent / minimize losses. Your report shall highlight the reason for having BCP except this reason..

- (a) Revenue Loss
- (b) Reputation Loss

- (c) Productivity Loss
- (d) New Customer Acquisition

16. Arrange the following BCM process chronologically. A. BCM Strategies B. Information Collection
C. BCM Training D. Testing and Maintenance E. Development and Implementation

- (a) A,B,C,D,E
- (b) B, A, E,D,C
- (c) B, A, E,C,D
- (d) E,D,C,B,A

17. BCP includes various plans to be prepared. These include Emergency Plan, Back-up Plan, Recovery Plan and Test Plan. BCP as a process has to start before disaster, as an entity without a BCP shall not be going concern after disaster. All plans are drafted, documented before disaster. Of the four plans, which are those where major part of plan is executed before a disaster occurs.

- (a) All Four
- (b) Emergency Plan, Back-up Plan
- (c) Back-up Plan, Test Plan
- (d) Test Plan, Recovery Plan

18. Which of the following back-up is most costly to have?

- (a) Full
- (b) Incremental
- (c) Differential
- (d) Both Incremental, Differential

19. DRDO (Defense Research and Development Organization, GOI) developed India's own fighter jets by name TEJAS. TEJAS, is considered to be one of the most light and least costly fighter jet in its class. Which system development method was used by DRDO. (HINT: The fighter jets were being developed for the first time in India).

- (a) SDLC
- (b) Prototype
- (c) Incremental Model
- (d) Spiral Model

20. Which system development model is considered to be most complex?
- (a) Waterfall
 - (b) Prototype
 - (c) Incremental Model
 - (d) Spiral Model
21. Which of the following is not an audit risk?
- (a) Inherent Risk
 - (b) Country Risk
 - (c) Detection Risk
 - (d) Control Risk
22. Auditor, to check whether the control in an accounting application restricting payment in excess of Rs.10,000/- in cash is working or not, creates a dummy voucher. This act of auditor would classify as which concurrent audit technique?
- (a) SNAPSHOT
 - (b) ITF
 - (c) SCARF
 - (d) CIS
23. Section 2(zh) of the Information Technology Act, 2000 (As amended 2008) defines "Verify". The definition establishes two important aspects for electronic records, namely _____ and _____.
- (a) Non-Repudiation, Integrity
 - (b) Confidentiality, Integrity
 - (c) Availability, Integrity
 - (d) Confidentiality, Non-Repudiation
24. Company has outsourced its accounts department. Statutory Auditor of the company shall be taking help from which auditing standard to complete the audit?
- (a) SA 300
 - (b) SA 402
 - (c) SA 500
 - (d) SA 510

25. Which of the following is not an example of Cloud computing model?

- (a) IaaS
- (b) PaaS
- (c) AaaS
- (d) SaaS

Solution

1	B	6	C	11	D	16	B	21	B
2	A	7	A	12	C	17	C	22	B
3	D	8	B	13	C	18	A	23	A
4	C	9	A	14	C	19	B	24	B
5	B	10	B	15	D	20	D	25	C

Paper 6 Information System Control and Audit (Old Course)

1 An MNC acquired an Indian company. The day acquisition was implemented the MNC replaces all systems in the Indian Company with a brand B systems where as Indian Company was using brand A systems. Above scenarios shows that replacing systems can be a huge cost. In today's competitive environment it may not be possible for all companies to bear such expenses, so they allow employees to use their own systems rather than changing the same with a specific brand. This way of working is called as _____.

- (a) Digital Revolution
- (b) Emerging Technology
- (c) Bring Your Own Device
- (d) Grid Computing

2. A large company has created a specific cloud computing environment for its employees. Access to this cloud is available to company customers and vendors, whose KYC has been validated. This type of cloud can be classified as _____.

- (a) Community Cloud
- (b) Hybrid Cloud
- (c) Private Cloud
- (d) Public Cloud

3. A key concern in technology like BYOD, Cloud Computing, Mobile Computing is _____.

- (a) Ownership
- (b) Availability
- (c) Cost
- (d) Security

4. A bank in process of implementing CBS has got following proposal from two vendors out of five shortlisted. Vendors has suggested that they shall host a basic software at the bank branches. The branches need to have systems with basic configuration, and internet connections with appropriate security. Bank need not buy a separate server as all data shall be hosted on a central system and all people in branch shall be given a user ID to access system. This shall drastically reduce the CAPEX of bank as a whole. The vendors shall be charging on a per user basis per month. All data, application shall be stored at a central location. This proposal by vendors can be best classified as _____.

- (a) IaaS, PaaS
- (b) PaaS, SaaS
- (c) SaaS, IaaS
- (d) PaaS, IaaS, SaaS

5. Asymmetric Crypto System means a system of a secure key pair consisting of a private key for (a) _____ a digital signature and a public key to (b) _____ the digital signature; Kindly fill the two spaces with appropriate words.

- (a) a. Encrypting. b. Decrypt
- (b) a. Creating. b. Verify
- (c) a. Decrypting. b. Encrypt
- (d) a. Encoding b. Decode

6. "Any set of computer instructions that are designed - to modify, destroy, record, transmit data or programme residing within a computer, computer system or computer network; or by any means to usurp the normal operation of the computer, computer system, or computer network;" is defined as _____ in Information Technology Act.

- (a) Computer Virus
- (b) Computer Instruction
- (c) Computer Hacking
- (d) Computer Contaminant

7. A programmer in a software company stole the sources code of payroll program and made modifications in the source code the program. This action of programmer is an offence under chapter XI of the act. Kindly mention the sections of chapter XI under which programmer may have committed the offence.

- (a) 65, 66
- (b) 66, 67A
- (c) 67A, 67B
- (d) 65, 67B

8. Clients digital signatures are stolen from CA office and are mis-used. Under which section CA may held guilty.

- (a) 43
- (b) 43A
- (c) 65
- (d) 66

9. Auditor performing an audit needs to understand the audit risk as it exists at client end. The risk so assessed may be revised based on auditors conclusion on audit of sample check. This makes audit process _____.

- (a) Improper
- (b) Iterative
- (c) Incorrect
- (d) Inconclusive

10. In technology world availability of physical audit evidence is one of greatest challenges faced by auditors. How auditors can make good this challenge?

- (a) Through use of additional audit procedure.
- (b) Through use of CAATs.
- (c) Better audit timings.
- (d) Through use of CAATs and better audit timings.

11. Capability in a software, where it can list all cash transaction in excess of Rs.10,000/- can be classified as a _____ technique.

- (a) CAAT
- (b) Snapshot
- (c) Audit Hook
- (d) SCARF

12. Audit Trails document the actions, user details etc. Audit trails objectives include all except _____.

- (a) Detecting unauthorized access to the system
- (b) Facilitating the reconstruction of events
- (c) Documenting changes to be made in system.
- (d) Promoting personal accountability

13. System is broken into small components and each component is developed and delivered to client. This development method is _____.

- (a) Spiral
- (b) Agile
- (c) Prototype
- (d) Incremental

14. Entity tried to develop system using SDLC. The development effort failed, on analysis of major reasons for failure it was found that, poor user and developer interaction, was a key issue. You have been hired as a system development consultant. Kindly suggest a new development method that you feel can help entity overcome the failure.

- (a) Spiral
- (b) Agile
- (c) Prototype
- (d) Incremental

15. A software development model that combines iterative and incremental methods is..

- (a) Spiral
- (b) Agile
- (c) Prototype
- (d) RAD

16. During evaluation of schedule feasibility of system, company realised it needs a better alternative to SDLC as a method of development, as it takes lot of time. A list of alternative

development methods is made available. All methods are eligible to be selected as alternate except one. Kindly identify that method..

- (a) Spiral
- (b) Agile
- (c) Prototype
- (d) RAD

17. During an emergency plan, what is the first act to be done?

- (a) Identify cause of incident
- (b) Identify probable loss due to incident
- (c) Notify Authorities
- (d) Start Recovery Procedures

18 Backing up all files modified after last full back up is _____.

- (a) Full Back-up
- (b) Differential Back up
- (c) Incremental Back up
- (d) Mirror Back up

19. GOI wishes to create a very secure access control mechanism for its nuclear installations. Authorised person can only enter after identifying himself / herself through the system. Identify which security measure shall provide the maximum protection.

- (a) Bio-Metric Validation along with a PASS WORD
- (b) Entry Card with a PASS WORD
- (c) Bio-Metric validation for a person who has Entry card and PASS WORD
- (d) PASS WORD with Entry Card

20. Identify the odd one out.

- (a) Security Guard
- (b) CCTV
- (c) Password
- (d) Deadman Doors

Answer Key

1	C	6	D	11	C	16	A
2	B	7	A	12	C	17	C
3	D	8	B	13	D	18	B
4	C	9	B	14	C	19	C
5	B	10	D	15	B	20	B

Paper 7 – Direct Tax Laws (Old Course)

1. Air India Ltd. has paid amount of Rs.20 lakhs during the year ended 31.3.2019 to Airports Authority of India towards landing and parking charges.
 - (a) No tax is deductible at source from such payment
 - (b) Tax is deductible at source@2% u/s 194C on such payment
 - (c) Tax is deductible at source@2% u/s 194-I on such payment
 - (d) Tax is deductible at source@10% u/s 194-I on such payment

2. A Ltd. credited Rs.28,000 towards fees for professional services and Rs.27,000 towards fees for technical services to the account of Ram in its books of account on 12.11.2018. The total sum of Rs.55,000 was paid by cheque to Ram on the same date.
 - (a) No tax is deductible at source from such payment
 - (b) Tax is deductible at source@10% u/s 194J on the entire payment of Rs.55,000
 - (c) Tax is deductible at source@10% u/s 194J on Rs.25,000 (Rs.55,000 - Rs.30,000)
 - (d) Tax is deductible at source@2% u/s 194-J on Rs.25,000 (Rs.55,000 - Rs.30,000)

3. Mr. Hari, a salaried individual, pays rent of Rs.55,000 per month to Mr. Raghav from June, 2018. Which of the following statement is correct?
 - (a) No tax is required to be deducted for F.Y.2018-19 since Mr. Hari is not subject to tax audit u/s 44AB
 - (b) Mr. Hari has to deduct tax@5% from rent paid every month
 - (c) Mr. Hari has to deduct tax@5% on the entire rent paid for F.Y.2018-19 from the rent payable for March, 2019
 - (d) Mr. Hari has to deduct tax of Rs.55,000 from rent payable for March, 2019

4. A Ltd., an Indian company, has a wholly owned subsidiary in Sri Lanka, and it extends corporate guarantee to the said non-resident subsidiary. If the amount guaranteed is Rs.90 crore, the Assessing Officer has to accept the guarantee fee declared by A Ltd. for F.Y.2018-19, if the guarantee fee declared is –
 - (a) Rs.45 lakhs
 - (b) Rs.80 lakhs
 - (c) Rs.90 lakhs
 - (d) Either (a) or (b)

5. ABC Ltd. an Indian company paid dividend distribution tax under section 115-O in respect of dividend distributed by it to its resident and non-resident shareholders. Mr. John, a shareholder of ABC Ltd. and a resident of Country X, has to pay tax in Country X on dividend received by him from ABC Ltd., as per the domestic tax laws of Country X. This is an example of:
 - (a) Juridical double taxation
 - (b) economic double taxation
 - (c) territorial double taxation
 - (d) municipal double taxation

6. Music Academy, as per its rules, pays a fixed honorarium per concert to each musician performing in the concerts organised by it. Hari, a violinist, however, refuses to accept this sum. If he requests Music Academy to

pay such sum directly to Aid Us, an unregistered institution providing relief to the poor and needy in rural India, what would be the tax consequence?

- (a) No amount would be chargeable to tax in the hands of Mr. Hari, since this is a case of diversion of income at source by overriding title.
 - (b) The amount payable to Aid Us would be chargeable to tax only in the hands of Mr. Hari, since it is a case of application of income
 - (c) The amount payable to Aid Us would be chargeable to tax only in the hands of the institution which has received the amount
 - (d) The amount payable to Aid Us would be chargeable to tax both in the hands of Mr. Hari and in the hands of the institution.
7. An application for advance ruling was made on 31.05.2018 in relation to a transaction proposed to be undertaken by Mr. Andrew, a resident of Germany. On 07.07.2018, he decides to withdraw the said application.
- (a) Application cannot be withdrawn once filed
 - (b) Application can be withdrawn on 07.07.2018 only with special permission of Principal Chief Commissioner
 - (c) Application cannot be withdrawn since 30 days from date of application have passed
 - (d) Application can be withdrawn on 07.07.2018 with permission of the AAR, if the circumstances of the case so justify
8. X Ltd., a company engaged in the business of manufacturing, paid Rs.2 lakh to IISc, Bangalore (an approved and notified institution) for scientific research. It also incurred capital expenditure of Rs.12 lakh (including cost of acquisition of land Rs.5 lakh) on in-house research and development facility as approved by the prescribed authority. The deduction under section 35 for A.Y.2019-20 would be
- (a) Rs.9,00,000
 - (b) Rs.13,50,000
 - (c) Rs.14,00,000
 - (d) Rs.10,00,000
9. Mr. X, set up a manufacturing unit in Warangal in the state of Telangana on 01.06.2018. It invested Rs.30 crore in new plant and machinery on 1.6.2018. Further, it invested Rs.25 crore in the plant and machinery on 01.11.2018, out of which Rs. 5 crore was second hand plant and machinery. The depreciation allowable under section 32 for A.Y.2019-20 is
- (a) Rs.15.375 crore
 - (b) Rs.20.375 crore
 - (c) Rs.14.875 crore
 - (d) Rs.11.375 crore
10. Y Ltd. purchased computers of the value of Rs.10 lakhs in November, 2018 and installed the same in its office. The depreciation allowable under section 32 for A.Y.2019-20 in respect of the same is –
- (a) Rs.6 lakhs
 - (b) Rs.3 lakhs
 - (c) Rs.4 lakhs
 - (d) Rs.2 lakhs

11. Mr. Arvind, engaged in the business of wholesale trade, has a turnover of Rs.90 lakhs for P.Y.2017-18 and Rs.210 lakhs for P.Y.2018-19. In the P.Y.2018-19, he paid salary of Rs.3 lakhs to Mr. Hari, a resident, without deduction of tax at source and commission of Rs.25,000 to Mr. Rajesh, a resident, without deduction of tax at source. The disallowance under section 40(a)(ia) while computing business income of A.Y.2019-20 would be –
- Rs.3,25,000
 - Rs.97,500
 - Rs.90,000
 - Nil
12. A public charitable trust registered under section 12AA for the previous year ended 31.3.2019, derived income of Rs.10 lakhs from properties held by trust and voluntary contributions from public 15 lakhs, out of which Rs.8 lakhs was applied for charitable purposes and Rs.4 lakhs towards repayment of loan taken for construction of orphanage. The total income of the trust for A.Y.2019-20 is –
- Rs.13 lakhs
 - Rs.9.25 lakhs
 - Rs.13.25 lakhs
 - Rs.17 lakhs
13. If Country A is a notified jurisdictional area (NJA), then, the rate at which interest receivable from a infrastructure debt fund notified u/s 10(47) is taxable in the hands of Mr. Ram, a resident of Country A, and the rate at which tax has to be deducted at source on such income are, respectively, -
- 30% and 5%
 - 5% and 5%
 - 30% and 30%
 - 5% and 30%
14. In October, 2014, Mr. Raghav, an Indian citizen who is a non-resident, bought 500 Global Depository Receipts (GDRs) of Alpha Limited, India, issued in accordance with the notified scheme of the Central Government against the company's initial issue of shares in foreign currency. In January, 2019, he sold 300 GDRs outside India to Mr. Joe, a citizen and resident of a country outside India and 200 GDRs to Mr. Kamal, a Resident but not ordinarily resident in India. What are the tax consequences of such sale transaction under the Income-tax Act, 1961?
- Capital gains arising on sale of 500 GDRs shall be subject to tax @20% with indexation benefit in India
 - No capital gains would arise on sale of 500 GDRs in India, since the GDRs are purchased in foreign currency
 - No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed in India @10% without indexation benefit
 - No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed @20% with indexation benefit in India
15. If ABC Ltd. has two Units, Unit 1 is engaged in power generation business and Unit 2 is engaged in manufacture of wires. Both the units were set up in Karnataka in the year 2014. In the year 2018-19, twenty lakh metres of wire are transferred from Unit 2 to Unit 1 at Rs.125 per metre when the market price per metre was Rs.180. Which of the following statements is correct?

- (a) Transfer pricing provisions would be attracted in this case
- (b) Transfer pricing provisions would not be attracted in this case since Unit 1 and Unit 2 belong to the same company and are not associated enterprises.
- (c) Transfer pricing provisions would not be attracted in this case as it is not an international transaction since both Units are in India. However, for the purpose of Chapter VIA deduction, the profits of power generation business shall, however, be computed as if the transfer has been made at the market value of Rs.180 per MT.
- (d) Transfer pricing provisions would not be attracted in this case due to reasons mentioned in both (b) and (c) above.

16. Which of the following is not an eligible international transaction for application of safe harbor rules?

- (i) Preparation of user documentation
- (ii) Receipt of intra-group loans where the amount of loan is denominated in Indian rupees
- (iii) Providing implicit corporate guarantee
- (iv) Purchase and export of core auto components
- (v) Receipt of intra-group services from group member

Choose the correct option

- (a) Only (ii)
- (b) (ii) & (v)
- (c) (ii), (iv) & (v)
- (d) (ii), (iii), (iv) & (v)

17. XYZ Ltd. has failed to report an international transaction entered by it with PQR Inc., which is a specified foreign company in relation to XYZ Ltd. What would be the penalty leviable in this case?

- (i) 2% of the value of transaction
- (ii) 50% of tax payable on under-reported income
- (iii) 200% of tax payable on under-reported income

Choose the correct option

- (a) Only (i)
- (b) Only (iii)
- (c) (i) & (ii)
- (d) (i) & (iii)

18. Alpha Ltd.'s total income of A.Y.2019-20 has increased by Rs.34 lakhs due to application of arm's length price by the Assessing Officer on transactions of purchase of goods from its foreign holding company in respect of a retail trade business carried on by it, and the same has been accepted by Alpha Ltd., then, -

- (a) business loss of A.Y.2015-16 cannot be set-off against the enhanced income
- (b) deductions under Chapter VI-A cannot be claimed in respect of the enhanced income
- (c) unabsorbed depreciation of A.Y.2010-11 cannot be set-off against the enhanced income

- (d) Business loss referred to in (a), deductions referred to in (b) and unabsorbed depreciation referred to in (c) cannot be set-off against the enhanced income.
19. Mr. Anjan, a property dealer, sold a flat in Mumbai, the stamp duty of which is Rs.2 crores for Rs.1.80 crores to his friend Mr. Ashwin, a college lecturer. Mr. Anjan had purchased the flat one year back for Rs.1.50 crores and the stamp duty value on that date was also Rs.1.50 crores. What are the tax implications of such sale?
- Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
 - Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan. There would be no tax implication in the hands of Mr. Ashwin
 - Rs.50 lakhs would be taxable as business income in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin.
 - Rs.50 lakhs would be taxable as short-term capital gains in the hands of Mr. Anjan and Rs.20 lakhs would be taxable as income from other sources in the hands of Mr. Ashwin.
20. Dividend received by a real estate investment trust (REIT) from special purpose vehicle (SPV) and distributed to its unit holders is –
- exempt in the hands of both the REIT and the unit holders unconditionally
 - exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if taxable in the hands of REIT
 - exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt in the hands of unit holders only if exempt in the hands of REIT
 - exempt in the hands of the REIT only if the SPV is a specified domestic company; exempt unconditionally in the hands of unit holders
21. Which of the following can be treated as "profits derived from" business or undertaking to qualify for deduction under section 80-IB?
- Transport subsidy
 - Duty drawback receipts
 - interest subsidy
 - power subsidy
- Only (ii)
 - (ii) & (iii)
 - (i), (iii) & (iv)
 - All the above
22. ABC Ltd., an Indian company engaged in manufacture of steel, has incurred expenditure on advertisement in a souvenir of a political party. Which of the following statements are correct?
- Such expenditure is allowable as deduction while computing its business income.
 - Such expenditure is not allowable as deduction while computing its total income.
 - Such expenditure is not allowable as deduction while computing its business income but is allowable as deduction from gross total income.

- (d) Such expenditure is neither allowable as deduction from business income nor allowable as deduction from gross total income
23. Rental income earned from the business of letting out of properties is –
- always taxable as income from house property
 - always taxable as business income
 - taxable as business income or income from house property, at the option of the assessee. However, the practice should be followed consistently.
 - taxable as business income only if the entire or substantial income of the assessee was from letting out of property. Otherwise, the same would be taxable as income from house property.
24. ABC Ltd., an Indian company commenced business on 1.2.2019. It incurred preliminary expenses of Rs.35 lakhs during the period from 1.4.2018 to 31.1.2019. The cost of the project is Rs.5 crore. The following are the details as on 31.3.2019: Issued Share Capital - Rs.3 crore; Share Premium - Rs.50 lakhs; Debentures - Rs.1 crore; Long-term borrowings - Rs.2 crore. The deduction under section 35D for P.Y.2018-19 is –
- Rs.5 lakhs
 - Rs.6 lakhs
 - Rs.6.50 lakhs
 - Rs.7 lakhs
25. Himalaya Ltd. is an eligible start-up engaged in eligible business. Its gross total income included profits of Rs.25 lakhs from such business. The Assessing Officer made disallowance of Rs.3 lakhs under section 40(a)(ia) and of Rs.2 lakhs under section 43B. The deduction allowable under section 80-IAC would be –
- Rs.25 lakhs
 - Rs.28 lakhs
 - Rs.30 lakhs
 - Rs.20 lakhs
26. Delta Limited is engaged in growing and manufacturing rubber in India. It commenced its operations from 1st April, 2018. It acquired plant and machinery (second hand), factory building and furniture at a cost of Rs.62 lakhs, Rs.37 lakhs and Rs.8 lakhs, respectively, in the P.Y. 2018-19 by way of ECS through bank account. Assuming that all the assets were put to use for more than 180 days during the P.Y. 2018-19, you are required to compute the written down value of each block as on 1st April, 2019.
- Rs.52.70 lakhs; Rs.33.30 lakhs & Rs.7.20 lakhs
 - Rs.58.75 lakhs; Rs.35.71 lakhs & Rs.7.72 lakhs
 - Rs.58.28 lakhs; Rs.35.52 lakhs & Rs.7.68 lakhs
 - Rs.59.675 lakhs; Rs.36.075 lakhs & Rs.7.8 lakhs
27. An Assessing Officer entered a hotel run by a person, in respect of whom he exercises jurisdiction, at 8.30 p.m. for the purpose of collecting information, which may be useful for the purposes of the Act. The hotel is kept open for business every day between 8 a.m. and 10 p.m. As per the provisions of section 133B,
- The A.O. cannot enter the premises at 8.30 p.m. since it is after sunset
 - The A.O. can enter premises at 8.30 p.m. and take away books of account kept at the hotel after taking prior approval of the Principal Chief Commissioner or Chief Commissioner.

- (c) The A.O. can enter premises at 8.30 p.m. and take away books of account kept at the hotel after recording reasons for doing so.
- (d) The A.O. can enter premises at 8.30 p.m. but cannot take away books of account kept at the hotel
28. In the course of search operations under section 132 in the month of May, 2019, Mr. Aakash makes a declaration under section 132(4) on the earning of income not disclosed in respect of P.Y. 2018-19. He also explains the manner in which he has derived such income and he pays the tax together with interest on such income and declares such income in the return of income filed by him in the month of July, 2019. Is penalty leviable in this case?
- (a) No penalty is attracted since Mr. Aakash has voluntarily made a declaration under section 132(4).
- (b) Penalty@10% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4).
- (c) Penalty@30% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4).
- (d) Penalty@60% of undisclosed income would be attracted even if Mr. Aakash has voluntarily made a declaration under section 132(4).
29. ABC Ltd. took on sub-lease a building from Ms. Jhanvi with effect from 1.7.2018 on a rent of Rs.20,000 per month. It also took on hire machinery from Ms. Jhanvi with effect from 1.10.2018 on hire charges of Rs.15,000 per month. ABC Ltd. entered into two separate agreements with Ms. Jhanvi for sub-lease of building and hiring of machinery. Which of the following statements are correct with reference to ABC Ltd.'s liability to deduct tax at source, assuming that one-month's rent was received as security deposit, which is refundable at the end of the lease period?
- (a) No tax needs to be deducted at source since rent for building does not exceed Rs.1,80,000 p.a. and rent for machinery also does not exceed Rs.1,80,000 p.a. Security deposit refundable at the end of the lease term is not rent for the purpose of TDS
- (b) Tax has to be deducted@10% on rent of Rs.2,00,000 (including security deposit) for building, but no tax needs to be deducted on rent for machinery (including security deposit), since the same does not exceed Rs.1,80,000.
- (c) Tax has to be deducted@10% on Rs.2,00,000 and @2% on Rs.1,05,000 (i.e. rent including security deposit)
- (d) Tax has to be deducted@10% on Rs.1,80,000 and @2% on Rs.90,000. Security deposit refundable at the end of the lease period is not rent.
30. Mudra Adco Ltd., an advertising company, has retained a sum of Rs.15 lakhs, towards charges for procuring and canvassing advertisements, from payment of Rs.1 crore due to Cloud TV, a television channel, and remitted the balance amount of Rs.85 lakhs to the television channel. Which of the following statements are correct?
- (a) No TDS is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd.
- (b) TDS@2% is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd
- (c) TDS@5% is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd.
- (d) TDS@10% is attracted on the sum of Rs.15 lakhs retained by Mudra Adco Ltd.
31. Mr. X acquired a house property at Mumbai from Mr. Y, a resident, for a consideration of Rs.90 lakhs, on 20.6.2018. On the same day, Mr. X made two separate transactions, thereby acquiring an urban plot in Kolkata

from Mr. C for a sum of Rs.49,50,000 and rural agricultural land from Mr. D for a consideration of Rs.60 lakhs. Which of the following statements are correct?

- (a) No tax deduction at source is required in respect of any of the three payments.
- (b) TDS@1% is attracted on all the three payments.
- (c) TDS@1% on Rs.90 lakhs and Rs.49,50,000 are attracted. No TDS on payment of Rs.60,00,000 for acquisition of rural agricultural land
- (d) TDS@1% on Rs.90 lakhs is attracted. No TDS on payments of Rs.49,50,000 and 60,00,000

32. A notified infrastructure debt fund eligible for exemption under section 10(47) of the Income-tax Act, 1961 pays interest of Rs.5 lakhs to a company incorporated in a foreign country. The foreign company incurred expenditure of Rs.12,000 for earning such interest. The fund also pays interest of Rs.3 lakhs to Mr. Frank, who is a resident of Country A, a notified jurisdictional area. Which of the following statements are correct?

- (a) No tax deduction at source is required in respect of both the payments.
- (b) No TDS is required in respect of payment of Rs.5 lakhs to the foreign company. However payment of interest to Frank attracts [TDS@31.2%](#)
- (c) TDS@5.20% is attracted on Rs.4,88,000 to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank
- (d) TDS@5.20% is attracted on interest payment of Rs.5 lakhs to the foreign company. TDS@31.2% is attracted on interest payment of Rs.3 lakhs to Mr. Frank

33. Mr. Ram, a resident individual aged 55 years, has not furnished his return of income for A.Y.2019-20. However, the total income assessed in respect of such year under section 144 is Rs.12 lakh. Determine the quantum of penalty leviable under section 270A?

- (a) Penalty leviable is Rs.1,79,400, being tax payable on total income of Rs.12 lakh
- (b) Penalty leviable is Rs.89,700, being 50% of tax payable on Rs.12 lakh
- (c) Penalty leviable under section 270A is Rs.53,300, being 50% of tax payable on under-reported income of Rs.9.50 lakhs (i.e., Rs.12 lakhs - basic exemption limit of Rs.2.50 lakhs)
- (d) Penalty leviable under section 270A is Rs.1,06,600, being tax payable on under-reported income of Rs.9.50 lakhs (i.e., Rs.12 lakhs - basic exemption limit of Rs.2.50 lakhs)

34. A private bank has not filed its statement of financial transaction or reportable account in relation to the specified financial transactions for the financial year 2018-19. A notice was issued by the prescribed income-tax authority on 1st October, 2019 requiring the bank to furnish the statement by 31st October, 2019. The bank, however, furnished the statement only on 15th November, 2019. What would be the penalty leviable under section 271FA?

- (a) Rs.91,500
- (b) Rs.13,600
- (c) Rs.16,800
- (d) Rs.22,800

35. Raman & Associates had made payment of Rs.2 lakh to the contractors for carrying out labour job work at various sites, but had not deducted tax at source. What are the tax consequences?

- (a) Rs.2,00,000 has to be added back while computing business income. However, no penalty is leviable
- (b) Rs.60,000 has to be added back while computing business income. However, no penalty is leviable

- (c) Penalty equal to the amount of tax which has not been deducted is leviable in this case. Also, Rs.2,00,000 has to be added back while computing business income.
- (d) Penalty equal to the amount of tax which has not been deducted is leviable in this case. Also, Rs.60,000 has to be added back while computing business income
36. Mr. Aryan is constructing a residential house property in Mumbai for self-occupation. He has taken a loan of Rs.35 lakhs on 30.3.2018 for this purpose. He pays interest of Rs.3 lakhs during the P.Y.2018-19. He repays Rs.3 lakhs towards principal on 31.3.2019. The construction is completed in April, 2019. This is the only house property of Mr. Aryan. For A.Y.2019-20,
- (a) Mr. Aryan is entitled for deduction of Rs.2 lakhs under section 24 and Rs.1.50 lakhs under section 80C
- (b) Mr. Aryan is entitled for deduction of Rs.2 lakhs under section 24, Rs.50,000 under section 80EE and Rs.1.50 lakhs under section 80C.
- (c) Mr. Aryan is neither entitled for deduction under section 24 nor under section 80C. He is, however, entitled for deduction of Rs.50,000 under section 80EE.
- (d) Mr. Aryan is not entitled for deduction under section 24, section 80C and section 80EE.
37. PQR Ltd., a domestic company, has distributed on 15/10/2018, dividend of Rs.230 lakh to its shareholders. On 17/9/2018, PQR Ltd. has received dividend of Rs.60 lakh from its domestic subsidiary company XYZ Ltd., on which XYZ Ltd. has paid dividend distribution tax under section 115-O. The additional income-tax payable by PQR Ltd. under section 115-O is –
- (a) Rs.29.70 lakhs
- (b) Rs.34.944 lakhs
- (c) Rs.34.608 lakhs
- (d) Rs.29.42 lakhs
38. Lima Ltd., a domestic company, purchases its own unlisted shares on 13th August, 2018. The consideration for buyback amounted to Rs.23 lakh, which was paid on the same day. The amount received by the company two years back for issue of such shares determined in the manner specified in Rule 40BB was Rs.17 lakh. The additional income-tax payable by Lima Ltd. is –
- (a) Rs.1,03,824
- (b) Rs.1,04,832
- (c) Rs.1,39,776
- (d) Rs.1,38,432
39. A REIT derives rental income of Rs.2 crore from real estate property directly owned by it and short term capital gains of Rs.1 crore on sale of developmental properties. It also receives interest income of Rs.3 crore from Gamma Ltd., an Indian company, in which it holds controlling interest. The REIT holds 80% of the shareholding of Gamma Ltd. Which of the following statements is correct?
- (a) All the above income are taxable in the hands of REIT
- (b) REIT enjoys pass through status in respect of the above income and hence, such income are taxable in the hands of the unit holders.
- (c) REIT enjoys pass through status in respect of interest income from Gamma Ltd. and hence, such income is taxable in the hands of the unit holders. Rental income and short-term capital gains are taxable in the hands of the REIT

- (d) REIT enjoys pass through status in respect of interest income from Gamma Ltd. and rental income from directly owned real estate property and hence, such income are taxable in the hands of the unit holders. Short-term capital gains is taxable in the hands of the REIT
40. Mr. Hari has income of Rs.52 lakhs under the head "Profits and gains of business or profession". One of his businesses is eligible for deduction@100% of profits under section 80-IB for A.Y. 2019-20. The profit from such business included in the business income is Rs.20 lakhs. The tax payable by Mr. Hari (rounded off), assuming that he has no other income during the P.Y.2018-19, is –
- Rs.8,03,400
 - Rs.10,89,950
 - Rs.9,90,860
 - Rs.11,00,530
41. The assessment of Satpura Ltd. was completed under section 143(3) with an addition of Rs.18 lakhs to the returned income. Satpura Ltd. preferred appeal before the Commissioner (Appeals) which is pending now. Which of the following statements is incorrect?
- The A.O. can initiate reassessment proceedings in respect of income chargeable to tax which has escaped assessment, provided such income which has escaped assessment does not form part of the additions of Rs.18 lakhs to the returned income, which is the subject matter of appeal.
 - The A.O. can pass an order under 154(1) to rectify a mistake apparent from the record, provided the rectification is in relation to a matter, other than the matter which has been considered and decided in the appeal before Commissioner (Appeals).
 - Under section 264, the Commissioner can revise the order pending before the Commissioner (Appeals), if the revision pertains to a matter, other than the matter(s) covered in the appeal before Commissioner (Appeals)
 - Under section 263, if the order is prejudicial to the interests of the revenue, the Commissioner can revise the order pending before the Commissioner (Appeals), if the revision pertains to a matter, other than the matter(s) covered in the appeal before Commissioner (Appeals)
42. Kamala charitable trust, registered u/s 12AA, having its main object as medical relief, earned dividend income of Rs.3 lakhs, income of Rs.2 lakhs from mutual funds registered under section 10(23D) and agricultural income of Rs.4 lakhs during the P.Y.2018-19. Which of the following statements is correct?
- The trust has to apply such income for charitable purposes as per the provisions of section 11 to claim exemption in respect of such income.
 - The trust can claim exemption under section 10(1), 10(34) and 10(35) in respect of its agricultural income, dividend and income from mutual funds, respectively, without applying such income for charitable purposes.
 - The trust can claim exemption under sections 10(34) and 10(35) in respect of its dividend and income from mutual funds, respectively, without applying such income for charitable purposes. However, it cannot claim exemption under section 10(1) in respect of agricultural income without applying such income for charitable purposes.
 - The trust can claim exemption under section 10(1) in respect of its agricultural income without applying such income for charitable purposes. However, it cannot claim exemption in respect of its income from mutual funds registered under section 10(23D) and dividend income of Rs.3 lakhs without applying such income for charitable purposes.

43. Delta Ltd., a domestic company, declared dividend of Rs.85 lakh for the year F.Y.2018-19 and distributed the same on 27.6.2019. Mr. Ganesh, holding 15% shares in Delta Ltd., receives dividend of Rs.12.75 lakh in June, 2019. Mr. Rajesh, holding 10% shares in Delta Ltd., receives dividend of Rs.8.50 lakh. Which of the following statements is correct?
- Dividend distribution tax u/s 115-O is attracted in the hands of Delta Ltd. There would be no tax on dividend received by Mr. Ganesh and Mr. Rajesh in their individual hands.
 - Dividend distribution tax u/s 115-O is attracted in the hands of Delta Ltd. However, dividend received by Mr. Ganesh and Mr. Rajesh is also taxable in their individual hands
 - Dividend distribution tax is payable by Delta Ltd. u/s 115-O. Also, dividend received by Mr. Ganesh is taxable in his hands@10%.
 - Dividend distribution tax is payable by Delta Ltd. u/s 115-O. Also, Mr. Ganesh has to pay tax@10% on dividend of Rs.2.75 lakhs received by him.
44. Which of the following individuals would be entitled to opt for presumptive taxation schemes under the Income-tax Act, 1961 for A.Y.2019-20?
- A retail trader having turnover of Rs.2 crore during the previous year 2018-19
 - A practising CA having gross receipts of Rs.92 lakhs during the previous year 2018-19.
 - A wholesale trader having turnover of Rs.1.96 crore during the previous year 2018-19.
 - A doctor having gross receipts of Rs.50 lakhs during the previous year 2018-19
 - Individual owning 8 goods carriages as on 1.4.2018. He sold 2 goods carriages on 1.5.2018 and purchased 4 goods carriages on 1.7.2018.
- Only (iii)
 - (iii) & (v)
 - (i), (iii), (iv) & (v)
 - (i), (ii), (iii), (iv) & (v)
45. Mr. Arjun's, aged 40 years, total income comprises of long-term capital gains on sale of land Rs.5 lakhs; short-term capital gains on sale of STT paid listed equity shares Rs.2 lakhs; income from lottery Rs.1 lakh and savings bank interest Rs.30,000. He invests Rs.1.50 lakhs in PPF. His tax liability for A.Y.2019-20 is –
- Rs.1,64,800
 - Rs.1,66,400
 - Rs.1,14,400
 - Rs.1,13,300
46. Mrs. Kavitha, wife of Mr. Sundar, is a partner in a firm. Her capital contribution of Rs.5 lakhs to the firm as on 1.4.2018 included Rs.3 lakhs contributed out of gift received from Sundar. On 2.4.2018, she further invested Rs.1 lakh out of gift received from Sundar. The firm paid interest on capital of Rs.60,000 and share of profit of Rs.50,000 during the F.Y.2018-19. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?
- Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Kavitha
 - Share of profit is exempt but interest of Rs.40,000 is includible in the income of Mr. Sundar and interest of Rs.20,000 is includible in the income of Mrs. Kavitha

- (c) Share of profit is exempt but interest of Rs.36,000 is includible in the income of Mr. Sundar and interest of Rs.24,000 is includible in the income of Mrs. Kavitha
- (d) Share of profit to the extent of Rs.30,000 and interest on capital to the extent of Rs.36,000 is includible in the hands of Mr. Sundar
47. X Ltd., a domestic company, has a total income of Rs.10,01,00,000 for A.Y.2019-20. The gross receipts of X Ltd. for P.Y.2016-17 is Rs.240 crore. The tax liability of X Ltd. for A.Y.2019-20 is
- Rs.2,76,55,500
 - Rs.2,79,24,000
 - Rs.3,46,42,610
 - Rs.3,49,78,940
48. M/s. Atlanta Airlines, incorporated as a company in USA, operated its flights to India and vice versa during the year 2018-19 and collected charges of Rs.280 crores for carriage of passengers and cargo, out of which Rs.100 crores were received in US Dollars for the passenger fare from Atlanta to Delhi. Out of Rs.100 crores, US dollars equivalent to Rs.40 crores is received in India. The total expenses for the year on operation of such flights were Rs.11 crores. The effective rate of income-tax applicable on total income of M/s. Atlanta Airlines is
- 42.432%
 - 43.68%
 - 43.26%
 - 42.024%
49. Abhinav, an individual aged 52 years resident in India, bought 3,000 equity shares of Rs.10 each of Theta Ltd. at Rs.70 per share on 1.6.2018. He sold 1,800 equity shares at Rs.50 per share on 3.11.2018 and the remaining 1,200 shares at Rs.60 per share on 23.3.2019. Theta Ltd. declared a dividend of 40%, the record date being 14.8.2018. On 15.3.2019, Abhinav sold a house from which he derived a long-term capital gain of Rs.1,25,000. Assuming Abhinav's interest income from bank fixed deposit is Rs.3,00,000, his tax liability (rounded off) for A.Y.2019-20 would be
- Rs.18,620
 - Rs.19,920
 - Rs.20,110
 - Rs.18,440
50. Ms Geetha, born in USA, comes to India for the first time on 5.1.2019 and left India on 28.5.2019. She was born and brought up in the USA but her grandparents were born in Karachi before the year 1940. In December, 2015, she bought, in foreign currency, 500 Global Depository Receipts of PQR Ltd, an Indian Company, which were issued in accordance with the notified scheme of the Central Government against the initial issue of shares of PQR Ltd. In January, 2018, she sold 300 GDRs outside India to Mr. Frank, a citizen and resident of Country 'X' and 200 GDRs to Mr. Kamal, a Resident but not ordinarily resident in India. Comment on the tax consequences of such sale transaction under the Income-tax Act, 1961 –
- Capital gains arising on sale of 500 GDRs shall be subject to tax @20% with indexation benefit in India
 - No capital gains would arise on sale of 500 GDRs in India, since the GDRs are purchased in foreign currency

- (c) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed in India @10% without indexation benefit
- (d) No capital gains would arise on sale of 300 GDRs, but capital gains arising on sale of 200 GDRs shall be taxed @20% with indexation benefit in India

Solution

1	(b)	11	(c)	21	(c)	31	(d)	41	(c)
2	(a)	12	(b)	22	(c)	32	(d)	42	(d)
3	(c)	13	(d)	23	(d)	33	(b)	43	(d)
4	(c)	14	(c)	24	(b)	34	(a)	44	(c)
5	(b)	15	(a)	25	(c)	35	(d)	45	(c)
6	(d)	16	(d)	26	(a)	36	(d)	46	(c)
7	(d)	17	(d)	27	(d)	37	(b)	47	(b)
8	(b)	18	(b)	28	(c)	38	(c)	48	(b)
9	(b)	19	(c)	29	(d)	39	(d)	49	(c)
10	(d)	20	(d)	30	(a)	40	(d)	50	(c)

Paper 7 Direct Tax Laws (Old Course)

1. The provision relating to limitation of interest deduction in respect of debt issued by a non-resident associated enterprise would not apply where the expenditure by way of interest or similar nature is –
 - (a) Rs.2.10 crore
 - (b) Rs.2 crore
 - (c) Rs.1.50 crore
 - (d) Rs.1 crore
2. In respect of any payment made to a person located in a Notified Jurisdictional Area (NJA), tax is deductible at higher of the rate specified in the Income-tax Act, 1961 or rates in force or –
 - (a) 10%
 - (b) 15%
 - (c) 20%
 - (d) 30%
3. Mr. A failed to comply with the provisions of section 203A for which penalty of Rs.10,000 was levied under section 272BB. Mr. A approached his consultant and asked him to file an appeal before the Commissioner of Income-tax (Appeals) against the Penalty Order. Determine the appeal fee that is required to be paid by Mr. A for filing the said appeal.
 - (a) Rs.500
 - (b) Rs.250
 - (c) Rs.1,000
 - (d) Rs.750
4. Interest paid to non-resident associated enterprise disallowed under the relevant provision of the Income-tax Act, 1961, during the A.Y. 2019-20 can be carried forward upto –
 - (a) A.Y. 2023-24
 - (b) A.Y. 2024-25
 - (c) A.Y. 2027-28
 - (d) Indefinitely
5. Fly Ltd., an Indian company, has to make secondary adjustment in A.Y. 2019-20, if the primary adjustment to transfer price, made by it *suo moto* in its return of income, is in respect of –
 - (a) A.Y. 2016-17 and the amount of primary adjustment is Rs.2 crore
 - (b) A.Y. 2018-19 and the amount of primary adjustment is Rs.1 crore
 - (c) A.Y. 2018-19 and the amount of primary adjustment is Rs.1.05 crore
 - (d) A.Y. 2019-20 and the amount of primary adjustment is Rs.1 crore
6. Mr. Akhilesh, a non-resident Indian citizen, is an enthusiastic sports person and is keen on contributing an article on a game of Hockey in a leading newspaper in India. He approaches you to enquire on taxability of such income for A.Y. 2019-20. As per the provisions of Income-tax Act, 1961, such income shall be taxable in his hands at –
 - (a) 5%
 - (b) 10%
 - (c) 20%
 - (d) Normal tax slab rates

(Note: The above rates are excluding cess and surcharge, if any)

7. Benefit of presumptive taxation under the Income-tax Act, 1961 would not be available to Akash, a non-resident, in A.Y. 2019-20, in respect of the related Indian income, if he is engaged in the business of –
 - (a) Operation of ships
 - (b) Operation of Aircraft
 - (c) Civil construction in connection with an approved turnkey project
 - (d) Plying, hiring or leasing of goods carriages
8. Salary paid by M/s AK & Co. to its partner falls within the limits prescribed under section 40(b)(v). Does AK & Co. have to deduct tax on salary paid to its partner?
 - (a) Yes; tax is deductible at source under section 192 on salary paid to its partners
 - (b) No; salary paid to partner is not subject to tax deductible at source
 - (c) Yes; tax is deductible at source under section 192 on salary paid to resident partners but under section 195 on salary paid to the non-resident partner
 - (d) Salary paid to resident partner is not subject to tax deduction at source; but tax has to be deducted under section 195 on salary paid to the non-resident partner
9. If an Indian company has entered into an advance pricing agreement (APA) in respect of its international transaction with associated enterprise for the P.Y. 2018-19. The company decides to make an application for roll back of the said APA. However, rollback provision shall not be available in respect of the said transaction for a rollback year, if –
 - (i) Such application has the effect of reducing total income declared in the return of income of the said year
 - (ii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Commissioner (Appeals) and the Commissioner (Appeals) has passed an order disposing of such appeal at any time before signing of the agreement
 - (iii) Determination of the arm's length price of the said transaction for the said year has been the subject matter of appeal before Appellate Tribunal and the Appellate Tribunal has passed an order disposing of such appeal at any time before signing of the agreement
 - (iv) Return of income for the relevant rollback year has been furnished by the company under section 139(4)

The most appropriate answer is –

- (a) (i) and (ii) above
 - (b) (i) and (iii) above
 - (c) (i), (ii) and (iv) above
 - (d) (i), (iii) and (iv) above
10. Mr. X receives the following gifts during the previous year 2018-19:
 - On occasion of marriage of X, he gets Rs.2,90,000 as gift on 02.04.2018.
 - On 20.09.2018, he gets a gift of Rs.7,00,000 from his grandmother.
 - On 30.12.2018, he gets by way of gift a commercial flat from the elder brother of his father-in-law (stamp duty value is Rs.25,00,000).
 - On 20.01.2019, he gets a wrist watch by gift from his friend B (Fair market value: Rs.1,00,000).
 - On 10.02.2019, he gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners- father of Mr. X and Mrs. X. The stamp duty value of the plot of land is Rs.19,00,000.

Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the A.Y. 2019-20.

- (a) Rs.44,00,000
- (b) Rs.45,00,000
- (c) Rs.52,00,000
- (d) Rs.54,90,000

11. M/s Beautiful Homes, an interior decorator proprietorship concern, submitted the following details of three years immediately preceding the P.Y. 2018-19.

Previous Year	Gross Receipts	Income from Profession	Total Income
2015-16	Rs. 1,39,000	Rs. 91,000	Rs. 3,10,000
2016-17	Rs. 2,02,000	Rs. 1,35,000	Rs. 4,07,000
2017-18	Rs. 3,85,000	Rs. 2,49,000	Rs. 6,83,000

Comment upon the applicability of section 44AA and Rule 6F regarding the maintenance of books of account and documents for P. Y. 2018-19

- (a) The assessee is required to maintain books of account as per section 44AA(1) as interior decorator is a notified profession and consequentially under Rule 6F also
- (b) The assessee is not required to maintain books of account as per section 44AA(1) and hence not covered under Rule 6F
- (c) The assessee is required to maintain books of account as per section 44AA(1), but, is exempted under Rule 6F since his gross receipts do not exceed Rs.1,50,000 in P.Y. 2015-16
- (d) Rule 6F shall be applicable, even though assessee does not meet the criteria for gross receipts/income from business/total income, as the case may be, as per section 44AA

12. In order to claim relief under the tax treaty in India, a non-resident –

- (a) Should have a business presence in India
- (b) Should produce his Permanent Account Number
- (c) Should produce Tax Residency Certificate (TRC)
- (d) Should produce his income-tax return filed in the home country

13. Samraat, resident in India, has earned an income of Rs.4 lakh by way of lump sum consideration for copyright of book from a publisher in Country E, with which India does not have a DTAA. The same has been taxed at a flat rate of 5% in Country E. In India, his gross total income is Rs.7 lakhs. The double taxation relief available is

- (a) Rs.20,000
- (b) Rs.7,725
- (c) Rs.1,931
- (d) Rs.1,950

14. Mr. Ganesh is running a steel factory. The total turnover of the factory during the F.Y. 2017-18 amounted to Rs.1.95 crores and he opts for presumptive tax scheme under section 44AD. The estimated turnover for F.Y. 2018-19 is likely to exceed Rs.2 crore. On 10-04-2018, he took consultancy of a Delhi based Chartered Accountant. The consultancy fees amounted to Rs.1,84,000. Should Mr. Ganesh deduct tax from consultancy fees of Rs.1,84,000? If yes, then what shall be the amount of tax to be deducted and by when the same should be deposited with Government?

- (a) Yes; Rs.18,400 to be deposited by 07.05.2018
 - (b) Yes; Rs.18,400 to be deposited by 07.07.2018
 - (c) Yes; Rs.15,400 to be deposited by 07.05.2018
 - (d) He is not liable to deduct tax in respect of professional fees paid
15. Suppose Mr. Naveen is an employee working in a public sector. What will be the consequence of the following transaction for A.Y. 2019-20?
- He repaid a loan in cash of Rs.24,000 (including interest of Rs.5,000), which he took from his friend for higher studies.
- (a) Disallowance under section 40A(3) of Rs.24,000
 - (b) Penalty under section 271E of Rs.24,000 due to violation of section 269T
 - (c) Penalty under section 271E of Rs.19,000 due to violation of section 269T
 - (d) No disallowance or Penalty under section 271E, since the principal loan amount is less than Rs.20,000
16. XYZ Ltd. has entered into a specified domestic transaction during the previous year 2018-19. The company failed to obtain a report from a Chartered Accountant and furnish such report under section 92E on or before the due date for furnishing return of income under section 139(1). Is any penalty imposable on XYZ Ltd? If yes, what will be the quantum of penalty?
- (a) Penalty is not imposable, as report is to be furnished only in case of an assessee who has entered into an international transaction.
 - (b) Penalty of Rs.1 lakh is imposable
 - (c) Penalty @2% of the value of specified domestic transaction is imposable
 - (d) Penalty @2% of the value of transaction or Rs.1 lakh, whichever is higher, is imposable
17. Mr. Sam (aged 40 years), a US football match referee, has earned income from football tournaments in India for A.Y. 2019-20. What are the TDS provisions applicable while making payment to him?
- (a) TDS @20.8% as per section 194E
 - (b) TDS @5.2% as per section 194E
 - (c) TDS under section 195
 - (d) No tax is deductible at source
18. The Assessment Order under section 143(3) in the case of Mr. Z was passed on 31.03.2019 and the notice of demand was served on the assessee on 02.04.2019 for levy of tax and interest. Mr. Z paid the tax and interest due on 12.4.2019. An application was filed by Mr. Z under Section 270AA on 27.04.2019 before the Assessing Officer to grant immunity from imposition of penalty and the said application was rejected by the Assessing Officer vide order dated 14.05.2019. The said order was served on Mr. Z on 15.05.2019. By what date an appeal against the Assessment Order should be presented by Mr. Z before the CIT (Appeals)?
- (a) 02.05.2019
 - (b) 22.05.2019
 - (c) 21.05.2019
 - (d) 30.04.2019
19. P is a salaried employee. On 01.06.2018, he gets a gift of house property situated in Mumbai (stamp duty value Rs.80,00,000) from Q. On 02.08.2018, P gets a gift of house property in Pune (Stamp duty value Rs. 50,000) from R. On 03.09.2018, P also gets a gift of house property in Delhi from R, the stamp duty value of which is Rs.1,00,000. What will be the tax implications in the hands of P, Q and R.
- (a) Rs.81,00,000 shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q and R respectively on account of transfer of capital asset.
 - (b) Rs.81,50,000 shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q and R respectively on account of transfer of capital asset.

- (c) Rs.81,00,000 shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitutes "transfer".
- (d) Rs.81,50,000 shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitutes "transfer".
20. Which of the following cannot be corrected while processing the return of income for A.Y.2019-20 under section 143(1)?
- (a) any arithmetical error in the return
- (b) an incorrect claim apparent from any information in the return
- (c) disallowance of expenditure indicated in the audit report but not taken into account in computing total income in the return.
- (d) addition of income appearing in Form 26AS which has not been included in computing total income in the return

Solution

1	(d)	6	(d)	11	(c)	16	(b)
2	(d)	7	(c)	12	(c)	17	(c)
3	(b)	8	(d)	13	(d)	18	(c)
4	(c)	9	(d)	14	(a)	19	(c)
5	(c)	10	(a)	15	(c)	20	(d)

Objective type assessment

- Where a person, resident in India, derives income from a nation with which India does not have a DTAA, such person is given credit in India in the following manner:
 - Entire tax paid in the foreign country is allowed as deduction
 - Tax paid in the foreign country on income which is doubly taxed, is allowed as deduction
 - Tax paid on income which is doubly taxed, is allowed as deduction, at the Indian rate of tax only
 - Tax paid on income which is doubly taxed, is allowed as deduction, at the Indian rate of tax or rate of tax of the foreign country, whichever is lower
- Interest income earned by a non-resident during the P.Y. 2018-19 on bonds, issued by ABC Ltd., an Indian company, under a scheme notified by the Central Government, which were purchased by him in convertible foreign currency, is –
 - Taxable @10%
 - Taxable @15%
 - Taxable @20%
 - Not taxable

- Zinc Ltd. owns the following assets on 01.04.2018:

Assets	Rate of Depreciation	WDV on 01.04.2018
Plant A	15%	4,05,000
Plant B	15%	1,95,000

On 10.06.2018, the company acquires Plant C for Rs. 20,000 (rate of depreciation is 15%). The company sells the following assets during the previous year 2018-19:

Assets	Sale consideration	Expenses on transfer
Plant A	2,00,000	12,000
Plant B	3,72,000	-
Plant C	85,000	200

Determine the amount of depreciation and capital gains for the A.Y. 2019-20 in the hands of Zinc Ltd. Further, is it possible for Zinc Ltd. to avoid tax on capital gains?

- Depreciation: Nil and Short term capital gain: Rs.24,800. Further, it is not possible for Zinc Ltd. to avoid tax on capital gains.
 - Depreciation: Rs.93,000 and Short term capital gain: Rs.1,17,800. Further, it is not possible for Zinc Ltd. to avoid tax on capital gains.
 - Depreciation: Nil and Short term capital gain: Rs. 24,800. Further, Zinc Ltd. can avoid tax on capital gains if it purchases another plant (eligible for depreciation @15%) during the previous year 2018-19 of Rs. 24,800 or more.
 - Depreciation: Rs. 93,000 and Short term capital gain: Rs.1,17,800. Further, Zinc Ltd. can avoid tax on capital gains if it purchases another plant (eligible for depreciation @15%) during the previous year 2018-19 of Rs.1,17,800 or more.
- Nikhil, an individual whose age is 35 years incurs the following expenses for the benefit of his family (i.e., Nikhil, Mrs. Nikhil and dependent children) and parents [father (80 years), mother (76 years)] during the previous year 2018-19:

	Medi-claim insurance premium (by cheque)	Preventive health check-up expenditure (in cash)	Medical expenditure (by cheque)
For the benefit of Nikhil, Mrs. Nikhil and children	Rs.20,000	Rs.7,000	Rs.2,000
For the benefit of father	Nil	Nil	Rs.32,000
For the benefit of mother	6,000	Nil	Nil

Compute the amount of deduction allowable to Nikhil for assessment year 2019-20.

- Rs.63,000
 - Rs.55,000
 - Rs.67,000
 - Rs.65,000
5. Mr. X took a loan from SBI on 31.03.2011 of Rs.10,00,000. During previous year 2018-19, interest actually paid on such loan was Rs.1,00,000. However, the amount of interest unpaid on such loan from 01.04.2011 upto 31.03.2019 is Rs.2,00,000. As Mr. X was making continuous defaults in making payment of interest, a restructuring arrangement was entered wherein the unpaid interest was converted into Funded Interest Term Loan (FITL) which is shown separately from the original loan and no interest is chargeable on FITL. This converted interest is to be paid 4 annual equal installments from 01.04.2022. Mr. X is of the view that for A.Y. 2019-20, the following deductions shall be allowed to him while computing his business income:
- Interest of Rs.1,00,000 on original principal of Rs.10,00,000.
 - Converted interest of Rs.2,00,000.
- Whether X's view is correct?
- Correct, total deduction of Rs.3,00,000 shall be allowed to Mr. X in A.Y. 2019-20.
 - Incorrect, no deduction shall be allowed to Mr. X in A.Y. 2019-20.
 - Partially correct, interest of Rs.1,00,000 shall be fully allowed, however, proportionate amount of converted interest for the period 01.04.2018 to 31.03.2019 shall be allowed.
 - Incorrect, only deduction of Rs.1,00,000 shall be allowed to Mr. X in A.Y. 2019-20.
6. A search u/s 132 of the Income-tax Act, 1961 was carried out in the case of Mr. M on 20.12.2016. During the course of search, the assessee admitted the additional income of Rs.50 crore as additional sales for the financial year 2016-17. While filing his return of income in response to notice u/s 153A, M did not declare the said income. Determine the amount of penalty excluding surcharge and cess to be payable by M in respect of the said undisclosed income.
- Rs.5 crore
 - Rs.10 crore
 - Rs.15 crore
 - Rs.30 crore
7. Mr. Harry and Mr. Sujoy, resident and Indian citizens, have been appointed as senior officials of Country A embassy and Country B embassy, respectively, in India in October, 2018. Mr. Harry and Mr. Sujoy are subjects of Country A and Country B, respectively, and are not engaged in any other business or profession in India. The remuneration received by Indian officials working in Indian embassy in Country A is exempt but in Country B is taxable. The tax treatment of remuneration received by Mr. Harry and Mr. Sujoy from embassies of Country A and Country B, respectively, in India for the P.Y. 2018-19 is:
- Exempt from income-tax under section 10
 - Taxable under the Income-tax Act, 1961

- (c) Remuneration received by Mr. Harry is exempt but remuneration received by Mr. Sujoy is taxable
 (d) Remuneration received by Mr. Sujoy is exempt but remuneration received by Mr. Harry is taxable
8. The total turnover of Sunshine Ltd. during the financial year 2017-18 was Rs.10 crore. It is liable to get its accounts audited u/s 44AB of the Income-tax Act, 1961 by 30.09.2018. However, due to some disputes between the directors, process of audit of accounts u/s 44AB will not be completed by 30.09.2018. Directors of the company have approached you to know the consequences of not complying with the provisions of Section 44AB. Which of the following are the consequences of the said non-compliance?
- Fine may be charged, which shall be lower of Rs.1,50,000/- or 0.5% of the total turnover.
 - Penalty may be charged, which shall be lower of Rs.1,50,000/- or 0.5% of the total turnover.
 - Fine as per option (a) and imprisonment of directors responsible for the non-compliance.
 - Penalty as per option (b) and imprisonment of directors responsible for the non-compliance.
9. Y is a foreign company having permanent establishment in India namely X. Z, a non-resident associated enterprise, has invested Rs.900 crore through debt in X. Earnings before interest, taxes, depreciation and amortisation (EBITDA) of X during the financial year was Rs.150 crore. Compute the amount of interest allowable in respect of the debt assuming that the debt was invested on the first day of the financial year and the rate of interest is 10% per annum.
- Rs.45 crore
 - Rs.90 crore
 - Rs.30 crore
 - Rs.15 crore
10. A Pvt. Ltd., an Indian company, is engaged in the business of generation of power. It installed a Wind Power Project on 30.04.2016 and claimed a deduction of 100% of profits derived from generation of power in A.Y. 2017-18 and A.Y. 2018-19 u/s 80-IA of the Income-tax Act, 1961. During the previous year 2018-19, A Pvt. Ltd. got amalgamated with B Pvt. Ltd. which is also an Indian company. Determine whether B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA? If yes, then for how many assessment years?
- Yes, B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA for the unexpired period of 8 consecutive assessment years.
 - Yes, B Pvt. Ltd. shall be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA for a fresh period of 10 consecutive assessment years.
 - No, B Pvt. Ltd. shall not be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA as deduction u/s 80-IA is not allowed at all to an amalgamated company.
 - No, B Pvt. Ltd. shall not be eligible to take deduction in respect of profits/gains from generation of power u/s 80-IA as deduction u/s 80-IA is not allowed to an amalgamated company if the amalgamation has taken place on or after 01.04.2007.
11. During the P.Y. 2018-19, R & Partners, a partnership firm, purchased the following assets on 05.05.2018:
- Machine A for Rs.10,00,000 (Rs.5,00,000 paid in cash and balance transferred through NEFT)
 - Machine B for Rs.5,00,000 (Rs.2,00,000 paid through a bearer cheque and balance amount paid through account payee cheque)
 - Machine C for Rs.8,00,000 (Rs.3,00,000 paid through account payee bank draft and balance amount paid in cash)
 - Machine D for Rs.7,00,000 (whole amount transferred through RTGS)

For Machine B, a cash subsidy of Rs.50,000 was received by the firm from the Government. Compute the total amount of actual cost of the block of machinery in the hands of the firm.

- (a) Rs.29,50,000
- (b) Rs.18,00,000
- (c) Rs.17,50,000
- (d) Rs.19,50,000

12. A Foreign Institutional Investor (FII) has total income which includes short-term capital gains on sale of preference shares of Rs.50 lakh. The rate of tax for charging such income to tax is:
 - (a) 10%
 - (b) 15%
 - (c) 30%
 - (d) 40%
13. On 05.04.2018, A (P) Ltd. issued 20,000 shares to X at Rs.40 per share. The face value per share is Rs.10 and fair market value of each share as determined u/s 56(2)(viib) is Rs.30 per share. X was not in India from the date of issue of shares to him up till 02.09.2018 but he came back to India on 03.09.2018. Whether any tax implications shall arise in the hands of A (P) Ltd. on account of the said transaction? If yes, compute the amount taxable in the hands of A (P) Ltd.?
 - (a) No tax implications shall arise in the hands of A (P) Ltd. as X was non-resident in India at the time of issue of shares.
 - (b) The amount would be chargeable to tax in the hands of A (P) Ltd., irrespective of the residential status of X.
 - (c) Yes, the amount chargeable to tax in the hands of A (P) Ltd. as income from other sources shall be Rs.2,00,000
 - (d) Yes, the amount chargeable to tax in the hands of A (P) Ltd. as income from other sources shall be Rs.6,00,000
14. Z Ltd. purchased a plant for Rs.50,00,000 (depreciation rate: 15%) on 20.05.2018. Before commencement of the commercial production, expenses of Rs.50,000 were incurred by Z Ltd. for trial run of the plant. What will be the treatment of the expenditure incurred on the said trial run as per the provisions of ICDS-V which deals with tangible fixed assets?
 - (a) The expenditure of Rs.50,000 is required to be capitalized as the commercial production has not commenced.
 - (b) The expenditure of Rs.50,000 can be claimed as a revenue expenditure by the company.
 - (c) The expenditure of Rs.50,000 has to be treated as deferred revenue expenditure.
 - (d) No treatment has been provided in ICDS-V in relation to expenditure incurred on trial run by an assessee.
15. In case where primary adjustment to transfer price is made *suo moto* by an Indian company, the time limit for repatriation of "excess money" is –
 - (a) 60 days from 30th September of the A.Y.
 - (b) 90 days from 30th September of the A.Y.
 - (c) 60 days from 30th November of the A.Y.
 - (d) 90 days from 30th November of the A.Y.

Answers

Question Number	Answer
1	(d)
2	(a)
3	(c)
4	(a)
5	(d)
6	(d)
7	(b)
8	(b)
9	(a)
10	(d)
11	(c)
12	(c)
13	(c)
14	(a)
15	(d)

Paper 7 – Direct Tax Laws (Old Course)

1. Which of the following amounts, if debited to the statement of profit or loss, are required to be added while computing book profits for the purpose of MAT?
- I. Income-tax
 - II. Proposed dividend
 - III. Depreciation
 - IV. Interest on Income-tax
 - V. Amount transferred to general reserve
 - VI. Provision for losses of subsidiary company
 - VII. Dividend paid

- (a) I, III, V, VI, VII
- (b) I, II, V, VII
- (c) I, II, III, IV, V, VI, VII
- (d) I, II, III, V, VI, VII

2. Z Ltd., a company providing telecommunication service, obtains a telecom license on 01.04.2017 for a period of 10 years which ends on 31.03.2027 (license fee being Rs.27 lakh). Find out the amount of deduction allowable to Z Ltd. in respect of such license fee during the A.Y. 2019-20 if the entire amount of license fee is paid on 01.04.2018.

- (a) Nil
- (b) Rs.27 lakh
- (c) Rs.3 lakh
- (d) Rs.2.7 lakh

3. Following are the details given in the case of PQR, which is a partnership firm for A.Y. 2019-20:

Returned total income	1,00,00,000
Total income determined u/s 143(1)(a)	1,10,00,000
Total income assessed u/s 143(3)	1,50,00,000
Total income reassessed u/s 147	2,00,00,000

Compute the amount of under-reported income, on which penalty shall be leviable on reassessment u/s 147.

- (a) Rs.90,00,000
- (b) Rs.1,00,00,000
- (c) Nil
- (d) Rs.50,00,000

4. A Ltd. deducted tax at source u/s 194J in respect of fees of Rs.10 lac paid to an Indian law firm for legal and professional services. After deduction of tax at source, A Ltd. failed to pay the said amount to the credit of the Central Government on or before the due date of filing return of income. Which of the following are the consequences of non-deposit of tax at source after deduction of the same?

- I. Disallowance of Rs.3 lac u/s 40(a)(ia).
- II. Levy of interest at the rate of 1.5% per month or part of a month from date of deduction till the date of payment.

- III. Levy of interest at the rate of 1% per month or part of a month from date of deduction till the date of payment.
 - IV. Rigorous imprisonment for a term not less than 3 months but which may extend to 7 years and fine.
 - V. Penalty as directed by the Assessing Officer u/s 221 upto a maximum of tax in arrears i.e., Rs.1 lac in the instant case.
 - VI. Penalty u/s 271C of Rs.1 lac.
- (a) I, III, VI
 - (b) I, III, V, VI
 - (c) I, II, IV, V, VI
 - (d) I, II, IV, V
5. PQR Ltd. is a company which already possesses a TAN and uses the same for the purpose of TDS. Now, PQR Ltd. wants to sell some scrap of his business to A Ltd. on which it is required to collect tax at source @1%. Whether PQR Ltd. is required to apply for a separate TAN for the purpose of TCS?
- (a) No, PQR Ltd. is not required to apply for a separate TAN for the purpose of TCS as TAN allotted for TDS can be used for TCS also.
 - (b) Yes, PQR Ltd. is required to apply for a separate TAN for the purpose of TCS as tax deduction account number and tax collection account number are different account numbers.
 - (c) No, PQR Ltd. is not required to apply for a separate TAN for the purpose of TCS as there is no requirement of obtaining TAN for the purpose of TCS.
 - (d) No, PQR Ltd. is not required to apply for a separate TAN for the purpose of TCS as in case of TCS, PAN can be quoted in place of TAN.
6. In which of the following transfers, the benefit of indexation is available in case the asset is a long-term capital asset?
- (a) Transfer of securities by a foreign institutional investor u/s 115AD.
 - (b) Transfer of undertaking or division in a slump sale u/s 50B.
 - (c) Transfer of shares in an Indian Company purchased in foreign currency by a non-resident assessee
 - (d) None of the above
7. In case of Reema & Sons, a partnership firm, assessment proceedings were completed by the Assessing Officer u/s 148 of the Income-tax Act, 1961 at a total income of Rs.2,50,000 for A.Y. 2016-17. Aggrieved by the assessment order, the Assessee preferred an appeal before CIT(A) which also confirmed the action of the Assessing Officer and provided no relief to the Assessee. Thereafter, the Assessee is desirous of filing an appeal against the order of the CIT(A) before the Hon'ble ITAT. Guide him regarding the amount of fee that is required to be paid by him in respect of the appeal to be filed before ITAT.
- (a) Rs.500
 - (b) Rs.1,500
 - (c) Rs.2,500
 - (d) Rs.10,000

8. Ms. Neha is a working partner in Ramaiya & Associates. As per the terms of the partnership deed, she is paid a fixed monthly salary of Rs.39,800. In this case, salary of Rs.39,800 shall be charged to tax in the hands of Neha in which head of income and to what extent?
- Salaries
 - Profits and gains of business or profession, to the extent of amount allowed to the Firm u/s 40(b).
 - Profits and gains of business or profession, to the extent of amount not allowed to the Firm u/s 40(b).
 - Income from other sources

9. Written down value of 4 machines at the beginning of the previous year 2018-19 forming part of block of assets carrying 15% rate of depreciation was Rs.6,00,000. The following 3 machines of the same block were bought:

Machines	Date of Purchase	Date when put to use	Cost (Rs.)
A	5.1.18	14.1.19	50,000
B	5.4.18	15.5.18	1,00,000
C	15.5.18	31.1.19	2,00,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for Rs.4,00,000. Calculate the depreciation for A.Y. 2019-20. Ignore additional depreciation.

- Rs.67,500
 - Rs.82,500
 - Rs.60,000
 - Rs.63,750
10. On 05.04.2018, A (P) Ltd. issued 20,000 shares to X at Rs.40 per share. The face value per share is Rs.10 and fair market value of each share as determined u/s 56(2)(viib) is Rs.30 per share. X was not in India from the date of issue of shares to him up till 02.09.2018 but he came back to India on 03.09.2018. Whether any tax implications shall arise in the hands of A (P) Ltd. on account of the said transaction? If yes, compute the amount taxable in the hands of A (P) Ltd.?
- No tax implications shall arise in the hands of A (P) Ltd. as X was non-resident in India at the time of issue of shares.
 - The amount would be chargeable to tax in the hands of A (P) Ltd., irrespective of the residential status of X.
 - Yes, the amount chargeable to tax in the hands of A (P) Ltd. as income from other sources shall be Rs.2,00,000
 - Yes, the amount chargeable to tax in the hands of A (P) Ltd. as income from other sources shall be Rs.6,00,000
11. The rate of deduction of tax from interest payable to a foreign company (located in a country with which there is no DTAA) by an Indian company on borrowing made by it from the said foreign company by way of issue of rupee denominated bonds on 31.03.2019 is:

- (a) Nil
 (b) 5% + HEC
 (c) 5% + Surcharge (if applicable) + HEC
 (d) 20% + HEC
12. At the time of computation of taxable income of Star Pvt. Ltd., its tax consultant found that the company won a lottery of Rs.5 crore on 20.12.2018. Apart from the lottery receipt, there were no other receipts in the hands of the company during the year 2018-19. The company follows mercantile system of accounting. The tax consultant was of the view that the income of the company for A.Y. 2019-20 shall be computed as per the provisions of ICDS IV which deals with Revenue Recognition. In light of these facts, which of the following statements is true?
- (a) The view of the tax consultant is correct as for computing the business income or income from other sources, any revenue is to be recognized as per the provisions of ICDS IV.
 (b) The view of the tax consultant is incorrect as ICDS IV is not applicable on recognition of lottery receipts.
 (c) The view of the tax consultant is correct as for any person following mercantile system of accounting, all ICDS are to be mandatorily followed for computing income.
 (d) The view of the tax consultant is incorrect as ICDS are not applicable for FY 2018-19.
13. Mr. X received an assessment order dated 11.11.2018 on 15.11.2018 wherein his total income was assessed at Rs.20 lakh. The returned income of X was Rs.5 lakh. However, Mr. X did not accept the assessment order and filed an appeal against the same before the Commissioner of Income Tax (Appeals). Now, while contesting the appeal, he wishes to submit some evidences that were not submitted by him before the Assessing Officer. As the Tax Consultant of Mr. X, what will be your advise to him regarding the submission of the said evidences?
- (a) Commissioner of Income Tax (Appeals) has no power to accept any evidences other than the evidences already submitted before the Assessing Officer.
 (b) Commissioner of Income Tax (Appeals) may accept the additional evidences if the conditions given in Rule 46A(1) of the Income-tax Rules, 1962 are satisfied.
 (c) Commissioner of Income Tax (Appeals) may accept the additional evidences if the conditions given in Rule 46 (1) of the Income-tax Rules, 1962 are satisfied.
 (d) Commissioner of Income Tax (Appeals) has no power to reject any evidences which the Appellant wishes to submit before him during the appellate proceedings.
14. A Pvt. Ltd. is a company engaged in the business of trading of household appliances. The directors of the said company are desirous of converting it into a LLP. After the conversion, all the assets and liabilities of the company shall be transferred to the LLP. The conversion of the company into LLP shall take place in the financial year 2018-19. The details of the total sales and total value of assets of the company are as follows:

Previous Year	Total Sales (in Rs.)	Total value of assets (in Rs.)
2014-15	78,00,000	1,88,00,000
2015-16	50,00,000	3,56,00,000
2016-17	45,78,000	4,78,00,000
2017-18	60,00,000	5,00,00,000

2018-19	85,00,000	10,00,00,000
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The directors have approached you to determine whether any capital gains shall arise in the hands of the company on its conversion to LLP. Advise them.

- (a) No capital gains shall arise in the hands of the company as the transaction under consideration is not a 'transfer' as per the provisions of Section 47.
- (b) Capital gains shall arise in the hands of the company as the conversion of a company to LLP amounts to transfer of capital asset.
- (c) No capital gains shall arise in the hands of the company as any kind of conversion such as conversion of firm into LLP, conversion of company into firm, conversion of company into LLP, etc. does not amount to transfer of capital asset.
- (d) Capital gains shall arise in the hands of the company as the amount of total sales and total value of assets in P.Y. 2018-19 exceeds the prescribed limits mentioned in Section 47(xiiiib).

15. A Bench of the Authority for Advance Rulings ("AAR") consists of a Chairman/Vice-chairman, one revenue member and one law member. An Assessee filed an application before the AAR pertaining to interpretation of certain provisions of the Income-tax Act, 1961. Determine which of the following persons can be a revenue member of the AAR for the purpose of adjudicating the said application?

- (a) A person from the Indian Revenue Service who is qualified to be a member of CBDT
- (b) A person from the Indian Customs and Central Excise Service who is qualified to be a member of CBEC
- (c) A member from the Indian Legal Service
- (d) Any person from the Indian Revenue Service

Solution

1.	(c)	6.	(d)	11.	(a)
2.	(c)	7.	(c)	12.	(b)
3.	(d)	8.	(b)	13.	(b)
4.	(d)	9.	(a)	14.	(a)
5.	(a)	10.	(c)	15.	(a)

Questions 12,15,16, 21 and 32 have been revised. Students are advised to refer the revised questions.

Multiple Choice Questions

Paper 8: Indirect Tax Laws

1. A taxable person has made following supplies in January, 2018 –
 Sales within the State – ₹ 2,00,000.
 Exports out of India – ₹ 60,000.
 Supplies to SEZ located within the State – ₹ 40,000.
 He does not intend to clear goods under Letter of Undertaking (LUT) or bond. The input tax credit available to him during January, 2018 – IGST – Nil. CGST – ₹10,000. SGST – ₹20,000.
 There is no opening balance in his electronic cash ledger or electronic credit ledger. Tax rates are – SGST – 9%, CGST – 9%, IGST – 18%. How much amount is payable by him in cash?
 (a) CGST – ₹ 8,000 SGST – Nil
 (b) CGST – ₹ 11,600 SGST – ₹ 1,600
 (c) CGST – ₹ 8,000, SGST – Nil, IGST – ₹ 5,200
 (d) CGST – ₹ 8,000 SGST – Nil, IGST – ₹ 16,000
2. Mr. A has received technical consultancy services from IT Star Consultants, USA. The import of technical consultancy will not be liable to GST if-
 (i) Mr. A pays some consideration for the services received
 (ii) Mr. A pays some consideration for the services received and if Mr. A uses the said service for business purposes
 (iii) Mr. A uses the said service for business purposes even though he does not pay any consideration for the same
 (iv) Mr. A uses the said service for personal purposes and does not pay any consideration for the same and is also a partner in IT Star Consultants
 (v) Mr. A uses the said service for business purposes and does not pay any consideration for the same and is also a partner in IT Star Consultants
 (a) (i), (ii), (v)
 (b) (ii), (iii) and (v)
 (c) (iii), (iv)
 (d) (iii), (iv) and (v)
3. XY, Bangalore, Karnataka furnishes following information:
 (i) 10 MT of inputs stock transferred to branch located in Chennai, Tamil Nadu on 10th April, 20XX. Transfer value of the inputs shown in the invoice is ₹ 10,000.

- (ii) 5 MT of inputs supplied to customer located in Chennai at ₹ 12,500 on 10th April, 20XX.
- (iii) Cost of production of 1 MT of input is ₹ 750.
- (iv) Chennai branch is eligible for full input tax credit.

The value of the inputs stock transferred to Chennai Branch is-

- (a) ₹ 10,000
 - (b) ₹ 25,000
 - (c) ₹ 8,250
 - (d) ₹ 12,500
4. Which of the given activities does not amount to supply?
- (a) An architect in India seeks legal advice from his son settled in London free of cost with regard to his family dispute.
 - (b) A Resident Welfare Association provides the service of depositing the electricity bills of the residents in lieu of some nominal charges.
 - (c) A dealer of air-conditioners permanently transfers an air conditioner from his stock in trade, for personal use at his residence.
 - (d) An electronic commerce operator in India seeks legal advice for its business from its head office in US free of cost.
5. Mr. X enters into a contract with a client for supply of certain services on 18.12.2017. GST is payable on such services under forward charge. Services are supplied on 25.12.2017 and invoiced on 05.01.2018. The client makes payment by cheque for the services on 29.12.2017 and such payment is credited to the bank account of Mr. X on 06.01.2018. The payment is recorded in the books of account of the client and Mr. X on 30.12.2017 and 07.01.2018 respectively.
- The time of supply of services is:
- (a) 29.12.2017
 - (b) 30.12.2017
 - (c) 06.01.2018
 - (d) 05.01.2018
6. Kesar Maharaj, a registered supplier, gave a classical dance performance in an auditorium. The consideration charged for the said performance is ₹ 1,60,000. Such performance is not for promotion of any product/services. Rate of CGST and SGST on such services is 9% each. Assuming the services supplied by him to be intra-State supplies, which of the following statements are true?
- (a) GST liability of Kesar Maharaj is Nil as services provided by him are exempt.
 - (b) Kesar Maharaj is liable to pay CGST and SGST of ₹ 14,400 and ₹ 14,400 respectively.
 - (c) Kesar Maharaj is liable to pay CGST and SGST of ₹ 900 and ₹ 900 respectively.

(d) None of the above.

7. Avtaar Enterprises, Kanpur started trading in ayurvedic medicines from July 1, 20XX. Its turnover exceeded ₹ 20 lakh on October 3, 20XX. The firm applied for registration on October 31, 20XX and was issued registration certificate on November 5, 20XX.

Can any revised invoice be issued in the given scenario? If the answer to the first question is in affirmative, determine the period for which the revised invoices can be issued as also the last date upto which the same can be issued.

- (a) Revised invoice cannot be issued in the given case.
- (b) Revised invoices can be issued for supplies made between October 3, 20XX and November 5, 20XX. Further, the revised invoices can be issued for the said period till December 5, 20XX.
- (c) Revised invoices can be issued for supplies made between October 31, 20XX and November 5, 20XX. Further, the revised invoices can be issued for the said period till December 31, 20XX.
- (d) Revised invoices can be issued for supplies made between July 1, 20XX and November 5, 20XX. Further, the revised invoices can be issued for the said period till December 31, 20XX.
8. Shagun started supply of goods in Vasai, Maharashtra from 01.01.20XX. Her turnover exceeded ₹ 20 lakh on 25.01.20XX. However, she didn't apply for registration. Determine the amount of penalty, if any, that may be imposed on Shagun under section 122(1) of the CGST Act, 2017 on 31.03.20XX, if the tax evaded by her, as on said date, on account of failure to obtain registration is ₹ 1,26,000:
- (a) ₹ 10,000
- (b) ₹ 1,26,000
- (c) ₹ 12,600
- (d) None of the above
9. Kutch Refineries supplies LPG to XYZ Ltd. by a pipeline under a contract. The terms of contract are:
- (i) Monthly payment of ₹ 2 lakh to be made by the recipient on fifth day of the month.
- (ii) A quarterly statement of the goods dispatched and payments made will be issued by seventh day of the month succeeding the relevant quarter.

August 5, September 5, October 5	Payments of ₹ 2 lakh made in each month
October 7,	Statement of accounts issued by supplier for the quarter July – September
October 17,	Differential payment of ₹ 56,000 received by supplier for the quarter July – September as per statement of accounts

Which of the following statements is true?

- (a) Invoice will be issued on August 5, September 5, October 5 and October 7.

- (b) Invoice will be issued on August 5, September 5 and October 5.
- (c) Invoice will be issued on August 5, September 5, October 5, October 7 and October 17
- (d) None of the above

10. A Chartered Accountant issued following bill –

- (i) Professional fees – ₹ 1,00,000
- (ii) Out of pocket expenses – ₹ 10,000
- (iii) MCA for e-filing of documents on MCA portal – ₹ 5,000.

His value of service for tax purposes is:

- (a) ₹ 1,15,000
 - (b) ₹ 1,10,000
 - (c) ₹ 1,05,000
 - (d) ₹ 1,00,000
11. Krishna Motors is a car dealer selling cars of an international car company. It also provides maintenance and repair services of the cars sold by it as also of other cars. Determine the amount of input tax credit available with the help of the following information regarding expenses incurred by it during the course of its business operations:

Particulars	GST paid (₹)
Cars purchased from the manufacturer for making further supply of such cars. [Two of such cars are destroyed in accidents while being used for test drive by potential customers. GST paid on their purchase is ₹ 1,00,000]	20,00,000
Works contract services availed for constructing a car shed in its premises.	50,000

- (a) ₹ 19,00,000
 - (b) ₹ 21,10,000
 - (c) ₹ 19,50,000
 - (d) ₹ 20,50,000
12. In which of the following cases, import of services is taxable under GST?
- (1) Import of service with consideration in course or furtherance of business.
 - (2) Import of service with consideration not in course or furtherance of business.
 - (3) Import of service without consideration from a related person in course or furtherance of business.
 - (4) Import of service without consideration from a related person not in course or furtherance of business.

- (a) (1) and (3)
 - (b) (2) and (4)
 - (c) (1), (2) and (3)
 - (d) (4)
13. Compute the value of 'exempted supply' for purpose of section 17(2) of the CGST Act, 2017 from the following details:
- (i) Value of alcoholic liquor for human consumption: ₹ 1,50,000
 - (ii) Value of architect services supplied: ₹ 2,00,000
 - (iii) Securities of face value of ₹ 1,00,000 sold for ₹ 95,000
- (a) ₹ 1,50,000
 - (b) ₹ 2,50,000
 - (c) ₹ 2,45,000
 - (d) ₹ 1,50,950
14. Grand Foods is engaged in supplying restaurant service in Delhi. In the preceding financial year, it has an aggregate turnover of ₹ 90 lakh from restaurant service and ₹ 10 lakh from supply of farm labour and has earned a bank interest of ₹ 10 lakh. Which of the following statements are true in the given case?
- (1) Aggregate turnover of Grand Foods, for determining eligibility for composition scheme, in the preceding FY is ₹ 90 lakh.
 - (2) Aggregate turnover of Grand Foods, for determining eligibility for composition scheme, in the preceding FY is ₹ 100 lakh.
 - (3) Aggregate turnover of Grand Foods, for determining eligibility for composition scheme, in the preceding FY is ₹ 110 lakh.
 - (4) Supply of farm labour and supply of service of extending loans/deposits does not make Grand Foods ineligible for composition scheme.
 - (5) Supply of services other than restaurant service - supply of farm labour and supply of service of extending loans/deposits - by Grand Foods makes it ineligible for composition scheme.
- (a) (1) and (4)
 - (b) (2) and (4)
 - (c) (1) and (5)
 - (d) (3) and (5)
15. Which of the following services provided by Good Health Care Nursing home are not exempt?
- (1) Reiki healing treatment.
 - (2) Plastic surgery conducted to repair cleft lip of a new born baby.

- (3) Air ambulance services to transport critically ill patients from distant locations to Good Health Care Nursing home.
- (4) Palliative care for terminally ill patients. On request, such care is also provided to patients at their homes. (Palliative care is given to improve the quality of life of patients who have a serious or life-threatening disease but the goal of such care is not to cure the disease).
- (5) Alternative medical treatments by way of Ayurveda.
- (a) (1) and (3)
- (b) (2) and (4)
- (c) (1)
- (d) (1), (4) and (5)
16. Open area in the precincts of a temple has been rented for a marriage for a day. In which of the following cases, such renting is exempt from GST?
- (a) Temple is owned by Sanatan Charitable Trust (registered under section 12AA of the Income-tax Act, 1961) and consideration charged is ₹ 9,000.
- (b) Temple is owned by Sanatan Charitable Trust (registered under section 12AA of the Income-tax Act, 1961) and consideration charged is ₹ 11,000.
- (c) Both (a) and (b).
- (d) None of the above.
17. BTW Pvt. Ltd. has following units:
- A: Factory in Noida, Uttar Pradesh; closed from 2017-18 onwards, no turnover.
- B: Factory in Ghaziabad, Uttar Pradesh; turnover of ₹ 54 crores in 2017-18;
- C: Service centre in Faridabad, Haryana; turnover of ₹ 2 crore in 2017-18;
- D: Service centre in New Delhi; turnover of ₹ 4 crores in 2017-18;
- The company's corporate office functions as an input service distributor. It has to distribute input tax credit of ₹ 18 lakh for April, 2018. Of this, an invoice involving tax of ₹ 6 lakh pertains to technical consultancy for Faridabad unit.
- Input tax credit will be distributed as:
- (a) ₹ 3,00,000 to Noida Factory, ₹ 9,00,000 to Ghaziabad factory, ₹ 3,00,000 to Faridabad service centre and ₹ 3,00,000 to New Delhi service centre.
- (b) ₹ 10,80,000 to Ghaziabad factory, ₹ 6,40,000 to Faridabad service centre and ₹ 80,000 to New Delhi service centre.
- (c) ₹ 10,80,000 to Ghaziabad factory, ₹ 40,000 to Faridabad service centre and ₹ 80,000 to New Delhi service centre.
- (d) ₹ 16,20,000 to Ghaziabad factory, ₹ 60,000 to Faridabad service centre and ₹ 1,20,000 to New Delhi service centre.

18. (i) A software professional providing technical consultancy buys a motorcycle for use of his employee.
 (ii) A motor driving school buys a car for being used in imparting motor driving training.
 (iii) A flying school imports an aircraft for use in its training activity.
 (iv) A manufacturer buys a small truck for the purpose of transporting its inputs and finished goods.

Input tax credit cannot be taken on:

- (a) (iii)
 (b) (i), (ii), (iii), (iv)
 (c) (i)
 (d) (i), (iii)
19. Kamlesh hires a works contractor for repairing his factory building on a lumpsum payment of ₹ 11,80,000. He debits half of the expenditure in the profit and loss account and the remaining half in the building account.

Assuming the rate of GST to be 18%, Kamlesh can take input tax credit of:

- (a) ₹ 90,000
 (b) ₹ 1,06,200
 (c) ₹ 2,12,400
 (d) Nil
20. An online portal, Best Info, raises invoice for database access on 21st February, 2017 on Roy & Bansal Ltd. The payment is made by Roy & Bansal Ltd. by a demand draft sent on 25th February, 2017 which is received and entered in the accounts of Best Info on 28th February, 2017. Best Info encashes the demand draft and thereafter, gives access to the database to Roy & Bansal Ltd from 3rd March, 2017. In the meanwhile, the rate of tax is changed from 1st March 2017.

What is the time of supply of the service of database access by Best Info?

- (a) 25th February, 2017
 (b) 28th February, 2017
 (c) 21st February, 2017
 (d) 3rd March
21. Which of the following persons can opt for the composition scheme?
- 1) Registered person whose aggregate turnover in the preceding financial year did not exceed Rs. 75 lakh.
 - 2) Registered person whose aggregate turnover in the preceding financial year did not exceed Rs. 1 crore.
 - 3) A person engaged in manufacture of Pan Masala, Tobacco and manufactured tobacco substitutes

- 4) A person engaged in the manufacture of Ice Cream, other edible ice, whether or not containing Cocoa.
- 5) A person engaged exclusively in the providing restaurant service.
- 6) A person engaged exclusively in supply of medicines.

Which of the above are correct:-

- (a) 1,2,3,5
 - (b) 1,2,5,6
 - (c) 2,3,4,5
 - (d) 3,4,5,6
22. Which of the following statements is not correct for a tax payer who has opted for composition scheme?
- (a) A registered person supplying goods under the composition scheme shall issue a bill of supply.
 - (b) Last date for payment of liability towards tax, interest, penalty, fee or any other sum is 20th day of each month.
 - (c) A composition dealer shall mention the words "Composition taxable person, not eligible to collect tax on supplies" at the top of the bill of supply issued by him.
 - (d) Last date for payment of liability towards tax, interest, penalty, fee or any other sum is 18th day of the month following each quarter.
23. M/s. Tanatan received testing services from Aquarian Solution (P) Ltd. on 10-May-2018. The payment was entered in the books of account of M/s. Tanatan on 16-May-2018 and was credited in the bank account of supplier on 19-May-2018. In the meantime, supplier issued invoice on 18-May-2018. What will be the time of supply in this case?
- (a) 10-May-2018
 - (b) 18-May-2018
 - (c) 16-May-2018
 - (d) 19-May-2018
24. Which one of the following cannot be a reason for cancellation of registration?
- (a) There is a change in the constitution of business from partnership firm to proprietorship.
 - (b) The business has been discontinued.
 - (c) A composition taxpayer has not furnished returns for three consecutive tax periods.
 - (d) A registered person, other than composition taxpayer, has not furnished returns for three consecutive tax periods.
25. Which of the following is an OIDAR service?
- (i) Online course consisting of pre-recorded videos and downloadable PDFs
 - (ii) PDF document manually emailed by provider
 - (iii) Individually commissioned content sent in digital form e.g., photographs
 - (iv) Stock photographs available for automatic download

- (v) PDF document automatically emailed by provider's system.
 - (a) (i), (iv)
 - (b) (iv), (v), (ii)
 - (c) (i), (iv), (v)
 - (d) All of the above
26. Which of the following is included while computing the value of supply of goods under GST?
- (a) Price of the goods
 - (b) Packing charges of the goods
 - (c) Tax levied by Municipal Authority on sale of the goods
 - (d) All of the above
27. Which documents are required to send goods from branch office in one State to head office in another State?
- (a) Tax invoice and e way bill
 - (b) Receipt Voucher and e way bill
 - (c) Payment Voucher and e way bill
 - (d) All of the above.
28. Is e-way bill mandatory in case of transport of the handicraft goods from one State to another State by a person who has been exempted from the requirement of obtaining registration?
- (a) E-way Bill is not required as the supplier is exempt from the requirement of obtaining registration.
 - (b) E-way Bill is mandatory only if the value of consignment is more than Rs. 50,000
 - (c) E-way Bill is mandatory even if the value of consignment does not exceed Rs. 50,000
 - (d) None of the above.
29. A registered person can claim refund any unutilised input tax credit on zero rated supplies without payment of tax or the credit accumulated on account of inverted tax rate structure:
- (a) at the end of the tax period, but before the expiry of 2 years from the relevant date.
 - (b) before the expiry of the tax period.
 - (c) before the expiry of 3 years from the relevant date.
 - (d) before the expiry of 18 months from the relevant date.
30. A registered person, who is under investigation for an offence under Chapter XIX, needs to retain the books of accounts/other records pertaining to such investigation until the expiry of:
- (a) 72 months from the due date of furnishing of annual return for the year pertaining to such accounts and records.
 - (b) 1 year after final disposal of such investigation.
 - (c) (a) or (b), whichever is later
 - (d) None of the above

31. Which of the following is a correct method of serving notice?

- (i) By giving it to any adult member of the family residing with the taxable person
- (ii) By making it available on the common portal
- (iii) By sending a courier to a person regularly employed by him in connection with the business
- (iv) By registered post with acknowledgement due to his authorised representative
- (v) Affixing a copy on the notice board of the office of the concerned officer who issued such notice
- (a) (ii), (iv)
- (b) (i), (iii), (v)
- (c) (i), (ii), (iii), (iv)
- (d) (i), (ii), (iii), (iv) and (v)

32. Which of the following transactions does not qualify as supply under GST law?

- (i) When the Head Office makes a supply of services to its own branch outside the State.
- (ii) When a person import services without consideration for the purposes of his business from his son living outside India.
- (iii) Disposal of car without consideration and where the supplier has not claimed input tax credit on such car.
- (iv) When a principal makes supplies to his agent who is also registered and is situated within the same State.
- (a) (i) & (iii)
- (b) (i), (ii) & (iii)
- (c) (iii)
- (d) (iii) & (ii)

33. Input tax Credit is available on all supplies which are used or intended to be used in the course or furtherance of business. Input tax credit will be available under which of the following situations?

- (a) GST paid on motor vehicle used in the course and furtherance of business.
- (b) GST paid on club membership fees.
- (c) GST paid on goods or services or both used for personnel consumption.
- (d) IGST @18% paid on inputs purchased from a vendor in Bangalore where the supplier is registered in Rajasthan.

34. Which of the following statements are true w.r.t. accounts and records?

- 1) All accounts and records are to be retained for 6 years.
- 2) Stock record is to be maintained by all registered dealers except the dealers registered under composition scheme.
- 3) Stock record is to be maintained by all registered dealers including composition dealers.
- 4) Monthly production records are to be maintained by all dealers except the dealers who have taken option for composition.

- 5) Monthly production records are to be maintained by all dealers including composition dealers
- 6) Records are to be maintained at principal place of business.

Which of the above are correct?

- a) 1,2,5,6
 - b) 1,3,5
 - c) 1,3,4
 - d) 1,2,4,6
35. A special Audit under GST is conducted by :
- a) The CGST Officials
 - b) The SGST Officials
 - c) Chartered Accountant or Cost Accountant
 - d) Any of the above
36. There is a difference in taxability of goods forming part of composite supply and mixed supply. Here are few examples from which you need to identify which is correct example of composite supply and mixed supply.
- i) Mr. A buys a car and purchases warranty and maintenance of the car by paying nominal amount. Car, warranty and maintenance here are a mixed supply.
 - ii) Mr. A buys a car and purchases warranty and maintenance of the car by paying nominal amount. Car, warranty and maintenance here are a composite supply.
 - iii) Mrs. A buys a microwave oven and some utensils for use in microwave oven. Both microwave oven and utensils are sold at a single price. Microwave oven and its utensils here are a mixed supply.
 - iv) Mrs. A buys chocolates, juices and biscuits from a shop. All items have different prices. Chocolates, juices and biscuits are a mixed supply.
- The correct examples of composite and mixed supply are: -
- a) i,iv
 - b) ii,iii
 - c) ii,iii,iv
 - d) None of the above
37. Mr. A purchases redeemable vouchers worth INR 8000/- on 1st January. The vouchers are redeemable against purchase of any goods. The vouchers are valid till 30th June. What will be the time of supply in case of such vouchers?
- a) 1st January
 - b) 30th June
 - c) The date of redemption of vouchers
 - d) None of the above
38. Mr. R, a resident of Delhi, holds an account in ICICI Bank in Delhi. Mr. R goes to Jaipur for work. During his visit to Jaipur he takes certain services relating to his account from ICICI bank in Jaipur in relation to some transaction to be carried out at Mumbai. What will be place of supply in this case?

- a) The place of supply shall be Delhi
 b) The place of supply shall be Jaipur
 c) The place of supply shall be Mumbai
 d) None of the above
39. Mr. X becomes liable to pay tax on 1st August, 2018 and has obtained registration on 15th August, 2018. Such person is eligible for input tax credit on inputs held in stock as on:
- a) 1st August, 2018
 b) 31st July, 2018
 c) 15th August, 2018
 d) He cannot take credit for the past period
40. Indigo Airlines sells various products like watches, artificial jewellery, packaged foods etc. to its passengers on board during the flight. The flight originates from Jaipur, halts at Mumbai and finally lands in Chennai. What would be the place of supply of such products?
- a) Jaipur
 b) Chennai
 c) Location where goods were taken on board
 d) Location where passengers buying goods disembark

Solutions

Q. No.	Correct option
1	(d)
2	(c)
3	(a)
4	(a)
5	(d)
6	(b)
7	(b)
8	(b)
9	(a)
10	(b)
11	(a)
12	(a)
13	(d)
14	(a)

15	(c)
16	(a)
17	(b)
18	(c)
19	(a)
20	(c)
21	(b)
22	(b)
23	(b)
24	(d)
25	(c)
26	(d)
27	(a)
28	(c)
29	(a)
30	(c)
31	(d)
32	(c)
33	(d)
34	(a)
35	(c)
36	(b)
37	(c)
38	(a)
39	(b)
40	(c)

Multiple Choice Questions

Paper 8: Indirect Tax Laws

Q. 1, 20, 24, 35, 39 and 42 have been revised. Students are advised to refer these questions.

1. Mr. Jeet Ram, an agriculturist, located in the State of Uttar Pradesh, is a re-seller of agricultural produce cultivated from land. His turnover for the period July, 2017 to March, 2018 is Rs. 20,00,000/-
 He has made occasional inter-State taxable supplies also of Rs. 10,00,000/- of handicraft goods to the State of Jammu and Kashmir during the month of March, 2018.
 Compute the aggregate turnover of Mr. Jeet Ram for the financial year 2017-18 under the CGST Act, 2017, and also state whether he is liable for registration under the Act or not.
 - a) Rs. Nil; Not liable for registration
 - b) Rs. 10,00,000/-; Not liable for registration
 - c) Rs. 35,00,000/-; Not liable for registration
 - d) Rs. 30,00,000/-; Liable for registration

2. Mr. Champak, located in the State of Himachal Pradesh, a job worker, is engaged in providing job work services relating to silverware articles to his Principal, Mr. Mote Lal, in the State of Rajasthan. The details of his turnover are as under:
 - a) For the period July, 2017 to March, 2018: Rs. 19,00,000/-.
 Mr. Champak, has earned continuous rental income of Rs. 15,000/- per month from his residential flat in Delhi for nine months from July, 2017 to March, 2018. He has also made wholly exempt supplies of handicraft items of Rs. 50,000/- during the period, December, 2017 to March, 2018.
 Compute the aggregate turnover of Mr. Champak for the financial year 2017-18 under the CGST Act, 2017, and also state whether he is liable for registration under the Act or not.
 - a) Rs. 20,85,000/-; Liable for registration.
 - b) Rs. 20,35,000/-; Liable for registration.
 - c) Rs. 19,00,000/-; Not liable for registration.
 - d) Rs. 19,50,000/-; Liable for registration.

3. Mr. Fardeen Khan, is the owner of a proprietorship firm (located in the State of Jammu and Kashmir), which is engaged in trading of ice-cream (not containing cocoa) and supplies the same locally within the same State itself. The turnover details of his firm are as under:
 - For the period April, 2016 to March, 2017: Rs. 80,00,000/-
 - For the period April, 2017 to June, 2017: Rs. 25,00,000/-
 - For the period July, 2017 to March, 2018: Rs. 75,00,000/-
 He wants to opt for Composition Scheme. State the composition turnover limit for the State of Jammu and Kashmir and whether he is eligible to opt for Composition Scheme or not.
 - a) Rs. 75,00,000/-: Yes
 - b) Rs. 75,00,000/-: No
 - c) Rs. 1,00,00,000/-: Yes
 - d) Rs. 80,00,000/-: Yes

4. Mr. Manubhai and Mr. Anubhai are two brothers running a business of supplying lubricants located in the State of Gujarat in their company, M/s. Ambani Lubricants (P) Ltd. On death of their respected father, the two brothers have divided their business. However, they have signed an agreement that Mr. Anubhai will not enter into business of supplying lubricants similar to business done by M/s. Ambani Lubricants (P) Ltd. run by Mr. Manubhai, for which Mr. Manubhai will pay him Rs. 2.5 crores as a lump sum payment. State whether transaction entered through the above agreement constitutes supply under CGST Act, 2017 or not.
 - (a) Yes, supply of goods by Mr. Manubhai.
 - (b) Yes, supply of goods by Mr. Anubhai.
 - (c) Yes, supply of services by Mr. Manubhai.
 - (d) Yes, supply of services by Mr. Anubhai.
5. Which of the following legal services does not fall under RCM provisions as contained under section 9(3) of the CGST Act-
 - (a) Representation services provided by an individual advocate
 - (b) Representation services provided by a senior advocate
 - (c) Representation services provided by a firm of advocates
 - (d) Legal services provided by an advocate to an unregistered individual
6. M/s. Sunlight Associates is a management consultancy firm located in Delhi and has certain foreign clients to whom the firm provides business support services. In regard to one of the foreign client, certain services were rendered in the month of January, 2018 and the invoice was duly raised.
 The firm undertakes such export of services against Letter of Undertaking, i.e. without payment of integrated tax. However, it is likely that the payment against such invoice would not be received till March, 2019.
 Is M/s. Sunlight Associates, required to pay integrated tax on such transaction if the payment is not received till March, 2019? In case integrated tax is payable, is M/s. Sunlight Associates, entitled to claim refund on this account? State which of the following option is correct-
 - (a) Integrated tax is payable by M/s. Sunlight Associates, but refund of payment of such tax is not allowed
 - (b) Integrated tax is payable by the foreign client and M/s. Sunlight Associates can claim ITC of such payment made
 - (c) Integrated tax is payable by M/s. Sunlight Associates, and refund of payment of such tax is allowed
 - (d) Integrated tax is not payable and refund of accumulated ITC is allowed
7. M/s. Global Exports (P) Ltd. made following supplies as under:
 - (i) Exports of taxable goods made on 01-Jun-2018 with payment of tax. GST returns were duly filed in time. However, GST RFD-01 has not been filed.
 - (ii) Exports of exempted goods were made on 15-Jul-2018 under letter of undertaking. However, input tax credit in respect of manufacturing of such goods is Rs. 50,000/-. Refund application GST RFD-01 is filed on 30-Apr-2019 i.e. after end of financial year 2018-19.
 - (iii) Goods supplied to export oriented unit on 29-Jul-2018 and return for the month of July, 2018 was filed on 20-Aug-2018. Input tax credit in respect of such supply is Rs. 26,000/- and an

undertaking was received from the recipient that it will not claim input tax credit and supplier may seek refund. GST RFD-01 is filed on 01-Dec-2020.

- (iv) Supply of services outside India were made on 11-Aug-2018 and payment was received on 10-Oct-2018. Input tax credit in respect of such supply is Rs. 48,000/-. GST RFD-01 is filed on 30-Sep-2020.

Note: Payment is received in US Dollars (\$) for all transactions except transaction (i).

Determine in which of above mentioned transactions, refund is available to M/s. Global Exports (P) Ltd.?

- (a) (ii), (iii) and (iv)
- (b) (i), (ii) and (iv)
- (c) (iii) and (iv)
- (d) (i) and (ii)

8. M/s Gyaan Publishing House, registered under GST in Delhi is engaged in printing and selling of books as well as trading of stationery items. He has provided following information of a consignment which is to be supplied to Mumbai: -

- (i) Taxable value of supplies indicated on tax invoice: Rs. 35,000/-
- (ii) Value of exempted supplies: Rs. 8,000/-
- (iii) Value of goods to be sent to job worker on delivery challan: Rs. 15,000/-

Calculate the consignment value for the purpose of generating e-way bill for inter-State supply of goods. Assume rate of tax on taxable goods to be 18%.

- a) Rs. 35,000/-
- b) Rs. 50,000/-
- c) Rs. 56,300/-
- d) Rs. 64,300/-

9. Mr. Motilal, a trader registered in Delhi, receives an order from Mr. Chotilal, registered in Noida, Uttar Pradesh, for supply of goods of Rs. 1,00,000/- taxable @18%. Mr. Motilal, agrees to supply the goods ex-factory. Mr. Motilal, supplied goods on 3-Nov-2018 and issued a tax invoice of Rs. 1,18,000/- (Rs. 1,00,000/- + 18,000/- IGST) in the name of Mr. Chotilal. Mr. Chotilal, arranged his own vehicle for transportation of goods from Delhi to Noida. However, during transportation of goods, the vehicle of Mr. Chotilal, was stopped and checked by the Proper Officer. The Proper officers found that there was no e-way bill along with the tax invoice. The owner of the goods decided to pay the penalty and got the goods released himself. According to the provisions of section 129 of the CGST Act, 2017, what is the amount to be paid for release of goods and who shall make the payment,-

- (a) Payment of applicable tax and penalty equal to 100% of the tax payable by Mr. Motilal, i.e. Rs. 18,000/- tax + Rs. 18,000/- penalty
- (b) Payment of applicable tax and penalty equal to 100% of the tax payable by Mr. Chotilal i.e. Rs. 18,000/- tax + Rs. 18,000/- penalty
- (c) Payment of applicable tax and penalty equal to 100% of the value of goods by Mr. Motilal i.e. Rs. 18,000/- tax + Rs. 1,00,000/- penalty
- (d) Payment of applicable tax and penalty equal to 50% of the value of goods by Mr. Chotilal i.e. Rs. 18,000/- tax + Rs. 50,000/- penalty

10. Analyse the transactions mentioned below-

- (a) Mr. Abhinay, provides architect services to Institute for Rural Development, a Government Agency for Rs. 2,80,000/- (inclusive of Rs. 30,000/- GST) under a contract in October, 2018. Mr. Abhinay, is registered under GST. Being a registered supplier, Institute for Rural Development deducted TDS of supplier.
- (b) M/s. Manmohak Apparels, is registered under GST in Madhya Pradesh. It sells leather handbags across India through e-commerce operator Pingpong. Pingpong, is also registered with Madhya Pradesh GST Authority as TCS collector and collected TCS @ 1% (0.5% CGST + 0.5% SGST) on supplies made through it. M/s. Manmohak Apparels made sales of Rs. 3,45,000/- and received sales returns of Rs. 67,700/- in the month of October, 2018. Sales are inclusive of tax. Leather handbags are taxable @ 18% GST. Pingpong, collected TCS of Rs. 2,350/- from M/s Manmohak Apparels.

Which of the transactions are in compliance with section 51 and section 52 of CGST Act?

- (a) Only (i)
- (b) Only (ii)
- (c) Both (i) and (ii)
- (d) Neither (i) nor (ii)

11. State which of the following statement is incorrect:

- (i) An agent, supplying goods on behalf of principal where invoice is issued in the name of principal, is required to get compulsorily registered under GST.
- (ii) Persons who are required to deduct tax under section 51, whether or not separately registered under this Act are compulsory required to get registered under GST without any threshold.
- (iii) Every person supplying online information and database access or retrieval services from a place outside India to a registered person in India is compulsory required to get registered under GST without any threshold.
- (iv) Persons who supply services, other than supplies specified under sub-section (5) of section 9, through such electronic commerce operator who is required to collect tax at source under section 52 are compulsory required to get registered under GST without any threshold.

- (a) (i), (ii)
- (b) (iii), (iv)
- (c) (i), (iii), (iv)
- (d) None of the above

12. Mr. Natwarlal, a registered person under GST, was the proprietor of M/s. Spiceton Restaurant.

He died and left behind his wife and son on 15-Aug-2018.

His son wants to continue the business of the deceased father.

The GST consultant of M/s. Spiceton Restaurant, gave the following advices to the son, how the son could continue the business of his deceased father.

Which of the following option is correct in accordance with the provisions of GST law?

- (a) The son should get himself registered under the name and style M/s. Spiceton Restaurant, under his own PAN and file Form ITC-02.

- (b) The son can get the authorized signatory changed by approaching to the Proper Officer and can continue the same business.
- (c) The son should close the old firm and start new business under different name.
- (d) The son should do the business as his mother as the new proprietor of the M/s. Spiceton Restaurant, and son should act as a Manager.
13. M/s. Raman Plastics is a manufacturer of plastic toys. It is registered person under GST in Shimla, Himachal Pradesh.
- It procures its raw materials from Punjab. During the month of April-2018, it purchased material of Rs. 35.00 Lakh and paid IGST thereon amounting to Rs. 6.30 Lakh. It supplied 30% of its production in the State of Jammu and Kashmir, whereas the 70% of its production was supplied taxable @ 0.1% to a merchant exporter during the month of Apr-2018.
- The returns for the month of April, 2018 were duly filed in time. The last date upto which the taxpayer can claim refund of input tax credit on account of inverted duty structure is
- a) 20-Apr-2020
- b) 31-Mar-2021
- c) 20-Apr-2021
- d) 20-Apr-2019
14. M/s. Jolly Electronics (P) Ltd., is an authorized dealer of M/s. GG Micro Ltd., located and registered in Lucknow, Uttar Pradesh. It has sold following items to Mr. Alla Rakha (a consumer):

Product	Amount (Rs.)
Refrigerator (500 litres) taxable @ 18%	40,000/-
Stabilizer for refrigerator taxable @ 12%	5,000/-
LED television (42 inches) taxable @ 12%	30,000/-
Split air conditioner (2 Tons) taxable @ 28%	35,000/-
Stabilizer for air conditioner taxable @12%.	5,000/-
Total value	1,15,000/-

M/s. Jolly Electronics (P) Ltd. has given a single invoice, indicating price of each item separately to Mr. Alla Rakha. Mr. Alla Rakha, has given a single cheque of Rs. 1,00,000/- for all the items as a composite discounted price. State the type of supply and the tax rate applicable on the same.

- a) Composite supply; Highest tax rate applicable to split air conditioner, i.e. 28%
- b) Mixed supply; Highest tax rate applicable to split air conditioner, i.e. 28%
- c) Supply other than composite and mixed supply; Highest tax rate applicable to split air conditioner i.e. 28%
- d) Supply other than composite and mixed supply; respective tax rate applicable to each item
15. M/s. Radhika Travels (P) Ltd., purchased a bus chassis from M/s. Jyoti Motors Ltd., for a consideration of Rs. 80.00 Lakh on 1-Aug-2018. M/s. Radhika Travels (P) Ltd., sent the bus chassis for body building to M/s. Hanumant Fabricators, and paid in advance the total consideration of Rs. 25.00 Lakh on 10-Aug-2018. M/s. Hanumant Fabricators, after completing the bus body, informed M/s. Radhika Travels (P) Ltd., for inspection of the work done on 1-Sep-2018. M/s. Radhika Travels (P) Ltd., visited the work shop of M/s. Hanumant Fabricators, on 7-Sep-2018, and confirmed that the bus body was in accordance with the terms of the contract. M/s. Hanumant Fabricators, raised an invoice of Rs. 25.00

Lakh on 15-Sep-2018, and supplied chassis along with the bus body so constructed, along with the invoice on 16-Sep-2018. State the time of supply in this case, out of the choices given below-

- a) 10-Aug-2018
- b) 7-Sep-2018
- c) 15-Sep-2018
- d) 16-Sep-2018

16. Banke Bihari (Pedewala), is a famous sweets manufacturer, located and registered in Mathura, Uttar Pradesh. He received an order for 200 Kg. of sweets on 2nd November, 2018 from M/s. Ghoomghoom Travels (P) Ltd., located and registered in same locality of Mathura for a total consideration of Rs. 1,00,000/- on occasion of Diwali festival. All 200 Kg. sweets were delivered to M/s. Ghoomghoom Travels (P) Ltd. on 5th November, 2018, but without invoice, as accountant of Mr. Banke Bihari was on leave on that day. However, the invoice was raised for the same on 6th November, 2018, when the accountant joined the office after leave. Payment in full was made on 7th November, 2018.

Determine the time of supply of goods in this case.

- a) 2nd November, 2018
- b) 5th November, 2018
- c) 6th November, 2018
- d) 7th November, 2018

17. M/s. Dhoom Furniture Mart, located and registered under GST in the State of Chhattisgarh, sells furniture from its showroom to M/s. Lucky Dhaba (located and registered under GST in the State of Jharkhand). M/s. Lucky Dhaba requested to deliver the furniture to Mr. Pyare Lal (his landlord at his new rented home at Patna, Bihar). M/s. Dhoom Furniture Mart sends the furniture with a proper E-way bill to Patna through a transporter, who made the delivery to Mr. Pyare Lal.

Determine the place of supply of furniture sold by M/s. Dhoom Furniture Mart to M/s. Lucky Dhaba in the above case.

- a) Chhattisgarh
- b) Jharkhand
- c) Patna, Bihar
- d) None of the above

18. M/s. Buildwell Engineering Consultants, located and registered in Gurugram, Haryana provided consultancy services to M/s. Taj India Ltd., (located and registered in Mumbai, Maharashtra) for its hotel to be constructed on land situated in Dubai.

Determine the place of supply of consultancy services provided by M/s. Buildwell Engineering Consultants to M/s. Taj India Ltd.:

- a) Gurugram, Haryana
- b) Mumbai, Maharashtra
- c) Dubai
- d) None of the above

19. Aflatoon Spares (P) Ltd., located and registered in Haryana, supplied spare parts (FOB basis) to Mr. Laxmi Khurana, an unregistered person, located in Rajasthan. Mr. Laxmi Khurana booked the courier himself with Black Dart Courier (P) Ltd., registered in Delhi for delivery in Rajasthan. Black Dart Courier (P) Ltd. picked up the goods from Haryana and delivered the courier in Rajasthan while passing through the State of Uttar Pradesh.

Determine the place of supply of service provided by Black Dart Courier (P) Ltd. to Mr. Laxmi Khurana:

- a) Haryana
- b) Delhi
- c) Rajasthan
- d) Uttar Pradesh

20. Mr. Javed Miandad, an unregistered person residing in Lucknow, Uttar Pradesh, went to Delhi for seeking admission of his child, Mr. Inzamam in CA IPCC. Mr. Javed Miandad got the demand draft generated at ICICI Bank Ltd., registered in Delhi against cash, for depositing the registration fee to ICAI. Mr. Javed Miandad does not have a bank account in ICICI Bank Ltd.

Determine the place of supply of service provided by ICICI Bank Ltd., Delhi to Mr. Javed Miandad.

- a) Delhi
- b) Lucknow
- c) Uttar Pradesh
- d) None of the above

21. Which of the following statements is correct while issuing a tax invoice?

- (i) Place of supply in case of inter-State supply is not required to be mentioned
- (ii) The power of attorney holder can sign the tax invoice in case the taxpayer or his authorised representative has been travelling abroad
- (iii) Quantity is not required to be mentioned in case of goods when goods are sold on "as is where is basis"
- (iv) Description of goods is not required to be given in case of mixed supply of goods
- (a) (ii), (iii)
- (b) (i), (ii), (iii)
- (c) None of the above
- (d) All of the above

22. What will be the rate of tax and nature of supply of a service, if the same is not determinable at the time of receipt of advance?

- (a) 12%, Inter-State supply
- (b) 12%, Intra-State supply
- (c) 18%, Inter-State supply
- (b) 18%, Intra-State supply

23. Which of the following activity is taxable under GST?

- (i) Supply of food by a hospital to patients (not admitted) or their attendants or visitors.

- (ii) Transportation of passengers by non-air-conditioned railways
 - (iii) Services by a brand ambassador by way of folk dance performance where consideration charged is Rs. 1,40,000.
 - (iv) Transportation of agriculture produce by air from one place to another place in India
 - (v) Services by way of loading, unloading, packing, storage or warehousing of rice
 - (vi) Service provided by GTA where consideration charged for transportation of goods for a single carriage is Rs. 900
 - (a) (i), (v), (vi)
 - (b) (iii), (iv), (v)
 - (c) (i), (iii), (iv)
 - (d) (iv), (v)
24. In which of the following cases, compounding of offence is not allowed under section 138 of CGST Act, 2017?
- (a) a person who has been allowed to compound once in respect of any of the offences specified in clauses (a) to (f) of section 132(1).
 - (b) a person who has been convicted for an offence under GST law by a Court.
 - (c) a person who has been accused of committing an offence under GST law which is also an offence under any other law for the time being in force.
 - (d) All of the above.
25. If a taxable person has done the following act, inspection can be ordered:
- (a) Suppression of any transaction of supply of goods or services
 - (b) Suppression of stock of goods in hand
 - (c) Contravention of any provision of the GST law to evade tax
 - (d) All of the above
26. The time-limit for issuance of order of Best Judgment assessment is:
- (a) 5 years from the date specified for furnishing of the annual return for the financial year to which the tax not paid relates.
 - (b) 4 years from the date specified for furnishing of the annual return for the financial year to which the tax not paid relates.
 - (c) 3 years from the date specified for furnishing of the annual return for the financial year to which the tax not paid relates.
 - (d) None of the above
27. Where any agent supplies goods on behalf of his principal:
- (a) Such agent shall be jointly and severally liable to pay the GST payable on such goods.
 - (b) The principal shall be jointly and severally liable to pay the GST payable on such goods.
 - (c) Both (a) and (b)
 - (d) None of the above.

28. Which of the following activities are exempt from GST?
- Religious pilgrimage organised by Todarmal Charitable Trust.
 - Loading, packing and warehousing of jaggery and pulses.
 - Milling of paddy into rice.
 - None of the above.
29. Which of the following statements is true?
- Services provided by Government ITIs to individual trainees are exempt from GST.
 - Services provided by the State Governments and Private Service Providers by way of transportation of patients in ambulance are exempt from GST.
 - Services of renting of shops in a hospital are exempt from GST being health care services.
 - Services provided by Police to PSUs are taxable.
- 1., 2. & 4.
 - 2., 3. & 4.
 3. & 4.
 - All of the above.
30. Which of the following transactions does not qualify as supply under GST law?
- Disposal of car without consideration and where the supplier has not claimed input tax credit on such car.
 - When a principal makes supplies to his agent who is also registered and is situated within the same State.
 - When the Head Office makes a supply of services to its own branch outside the State.
 - When a person import services without consideration for the purposes of his business from his elder son living outside India.
31. Read the following and choose the correct option:
- Indian customs waters extend up to 12 nautical miles;
 - Indian customs waters extend up to 24 nautical miles;
 - Indian customs waters extend up to exclusive economic zone of India;
 - Indian customs waters include territorial waters and extend up to 200 nautical miles.
- Only (ii)
 - (iii) and (iv)
 - (ii) and (iv)
 - Only (iv)
32. The taxable event under the Customs Act, 1962 is:
- Import of goods into India/ export of goods from India;
 - Supply of goods into India/ Supply of goods from India to outside India;
 - Sale of goods into India/ Sale of goods outside India;
 - Manufacture of goods into India for supply outside India.
33. What is the relevant date for determining rate of duty in case of warehoused goods before clearing for home consumption?
- Date of presentation of in-bond bill of entry;
 - Date of presentation of ex-bond bill of entry i.e. bill of entry for home consumption;
 - Date of payment of duty;

- (d) Date of import of goods into India
34. Which of the following is correct for destroyed goods under section 23?
- It is only applicable in case of total loss of goods even if same can be recovered.
 - The importer is not required to pay duty on such goods.
 - The provisions are also applicable even if goods are destroyed after warehousing.
 - The importer need not prove the loss to the proper officer.
35. In which of the following cases, importer can claim pilferage and choose not to pay duty under section 13 of Customs Act?
- Goods pilfered while on high seas;
 - Goods pilfered before unloading;
 - Goods pilfered after unloading but before order for home consumption given by proper officer;
 - Goods cleared for home consumption.
- (i) and (ii)
 - (i) and (iii)
 - Only (ii)
 - Only (iii)
36. In which of the following cases, can an importer claim abatement of duty under section 22 of Customs Act.
- Goods pilfered during unloading;
 - Goods damaged by accident (due to negligence of the importer) after unloading but before examination for assessment by customs authorities;
 - Goods destroyed by accident while in warehouse;
 - Goods deteriorated by accident (not due to negligence of the importer) after unloading but before examination for assessment by customs authorities.
- Only (iv)
 - Only (iii)
 - Both (i) and (iii)
 - All of above
37. Which of the following statement(s) is/are correct?
- Special exemption under section 25 of the Customs Act is granted by issuing a notification;
 - General exemption under section 25 of the Customs Act is granted by issuing an order;
 - Special exemption is required to be published in official gazette;
 - General exemption is not required to be published in official gazette.
- All of above
 - None of above
 - Both (i) and (ii)
 - (ii) and (iv)
38. ABC Ltd. exported certain goods last year. The buyer has sent back those goods since the same were under warranty and required repairs. Which of the following condition(s) is/are to be satisfied by ABC Ltd. to avail exemption on goods re-imported for repairs under *Notification No. 158/95- Cus dated 14.11.1995*?
- The re-import has to be for repairs only;
 - Goods must be re-exported after repairs;
 - Goods must be re-exported within 6 months or 1 year if time is extended;
 - In case goods are not repaired, new goods have to be sent by ABC Ltd within 6 months.
- (i), (ii) and (iv);
 - (i), (ii) and (iii);
 - (ii) and (iii);
 - All of above
39. XYZ Ltd. sent certain goods abroad for repairs. XYZ Ltd. has been advised by their consultants that they will have to pay customs duty only on fair cost of repairs, freight and insurance charges, both ways,

on re-import of exported goods under *Notification No. 46/2017 Cus. dated 30.06.2017* provided they fulfill following conditions:

- (i) The re-importation is done within 3 or, if time is extended, 5 years;
- (ii) The exported and re-imported goods are same;
- (iii) The ownership of goods should not have changed.

Choose which one of above is correct.

- a) (i), (ii) and (iii)
 - b) (ii) and (iii)
 - c) (i) and (iii)
 - d) Only (ii)
40. The integrated tax leviable on imported goods is levied-
- (a) as an additional duty of customs under section 3(7) of the Customs Tariff Act, 1975;
 - (b) as integrated tax under section 5 of the Integrated Goods and Services Tax Act, 2017;
 - (c) as a duty of customs under the Customs Tariff Act, 1975 read with Integrated Goods and Services Tax Act, 2017;
 - (d) None of the above
41. Which of the following are levied as additional duties of customs under section 3 of the Customs Act, 1962?
- (i) Duty equal to excise duty leviable on like product manufactured in India;
 - (ii) Countervailing duty as special additional duty;
 - (iii) Special additional duty to counterbalance sales tax;
 - (iv) Anti-dumping duty to protect domestic industry
 - a) All of above;
 - b) (i), (ii) and (iv);
 - c) (i), (iii) and (iv),
 - d) (i), (ii) and (iii)
42. Safeguard duty cannot be imposed if:
- (a) The article on which is proposed to be imposed originates from a developed country provided its share of imports is not more than 3% of total imports of that article in India;
 - (b) The article on which is proposed to be imposed originates from a developing country provided its share of imports is not more than 5% of total imports of that article in India;
 - (c) The article on which is proposed to be imposed originates from more than one developing country and its aggregate share of imports from developing countries each with less than 3% share taken together does not exceed 9% of total imports of that article into India.
 - (d) The article is imported by a person in special category State.
43. Some banks in China are giving interest free loans to its domestic manufacturers for manufacture of solar panels. This interest free loan would qualify as subsidy for levying of countervailing duty under section 9 of the Customs Tariff Act, 1975 in India on import of such solar panels if:
- (a) Such interest free loans is given by public or Government banks;
 - (b) Such interest free loan is given by private banks on their own without any direction or instruction from the Government;
 - (c) None of above;
 - (d) Both (a) and (b)
44. Countervailing duty under section 9 of the Customs Tariff Act shall not be levied unless it is determined that:
- (i) Subsidy relates to export performance;
 - (ii) Subsidy relates to use of domestic goods over imported goods in export article;
 - (iii) Subsidy is conferred on all persons engaged in the manufacture of export article.
 - a) All of above
 - b) Only (iii)

- c) (ii) and (iii)
 - d) (i) and (ii)
45. Anti-Dumping duty is calculated as
- (a) Higher of margin of dumping or injury margin;
 - (b) Lower of margin of dumping or injury margin;
 - (c) Higher of export price or normal value;
 - (d) Lower of export price or normal value

Paper 8 Indirect Tax Laws (Old Course)

1. M/s. Korelal Printon (P) Ltd., a registered person under GST in the State of Jammu & Kashmir, has been engaged in the business of offset printing and has been providing services to various book publishers. A publisher situated in the State of Himachal Pradesh, a registered person under GST sent content of the books to be printed by M/s. Korelal Printon (P) Ltd., in PDF format. The publisher also sent paper worth Rs. 4.00 Lakh to the printer, free of cost for the purposes of printing its books on 10-Nov-2018. M/s. Korelal Printon (P) Ltd., raised an invoice of Rs. 1.50 Lakh against printing of books and returned the printed books through Challan to the publisher on 20-Feb-2019.

The Proper Officer, intercepted the vehicle and claimed that M/s. Korelal Printon (P) Ltd., should have sent the invoice of Rs. 5.50 Lakh, i.e. including the value of free of cost paper supplied by the publisher.

You may suitably advice which one of the following is the correct option-

- a) The value of supply of paper for job work is to be included in the invoice in terms of section 15 of the CGST Act.
 - b) The goods sent for job work, i.e. paper sent for printing is a composite supply
 - c) M/s. Korelal Printon (P) Ltd., has entered into an agreement of printing books. Therefore, he is liable to pay tax on the gross value of Rs. 5.50 Lakh.
 - d) M/s. Korelal Printon (P) Ltd., has entered into an agreement of printing books. Therefore, he is liable to pay tax on the net value of Rs. 1.50 Lakh.
2. Mr. Palliwal Desai, a registered practicing Chartered Accountant, located in Jaipur, in the State of Rajasthan, is providing professional and consultancy services to its various clients from his proprietorship firm.

He has taken some professional consultancy services for his client from abroad from a UK CPA firm in which his brother is a partner. He has not paid any consideration for the same.

Such services would have been taxable @ 18% (9% under CGST + 9% under SGST and 18% under IGST), had they been received in India. Also, Mr. Palliwal Desai would have paid Rs. 4.00 Lakh, had his brother would not have been a partner in the UK firm.

State the liability of Mr. Palliwal Desai, under CGST/ IGST Act, 2017, out of the following options-

- a) Rs. 72,000/- as Integrated Tax
 - b) CGST Rs. 36,000/- & SGST Rs. 36,000/-, since POS is in India
 - c) Nil, since no foreign exchange was paid
 - d) Nil, since such services are exempt
3. In which of the following supplies of goods and services made exclusively to Government departments, agencies etc. and persons notified under section 51 of the CGST Act, 2017, TDS is required to be deducted?
 - (i) Health Department executed a contract with a local supplier to supply "medical grade oxygen" of Rs.2.6 lakh (including GST) and is making full payment.
 - (ii) Government school is making a payment of Rs.3.5 Lakh to a supplier for supply of cooked food as mid-day meal under a scheme sponsored by Central/State Government
 - (iii) Municipal Corporation of Kolkata purchases a heavy generator from a supplier in Delhi. Now, it is making payment of Rs.5 lakh and IGST @18% on Rs.5 lakh for such purchase.

- (iv) Finance Department is making a payment of Rs.3 lakh (including GST) to a supplier of 'printing & stationery'.

Assume all other conditions for deduction of TDS are fulfilled.

- (a) (i), (ii) and (iii)
 - (b) (ii), (iii) and (iv)
 - (c) Only (i) and (ii)
 - (d) Only (iii) and (iv)
4. State whether following statements are true or false:
- i. Any person aggrieved by any decision or order passed by an adjudicating authority under the Act, may appeal to such Appellate Authority as may be prescribed within 3 months from the date on which the said decision or order is communicated to him.
 - ii. No appeal shall be filed to Appellate Authority unless the appellant has paid sum equal to twenty five percent of the remaining amount of tax in dispute arising from the said order, in relation to which appeal is filed.
 - iii. Adjournment of appeal shall not be granted more than three times to a party during hearing of the appeal.
 - iv. The Appellate Authority shall have the power to refer back the case to adjudicating authority that passed the said decision or order.
- (a) True, True, True, False
 - (b) False, True, True, False
 - (c) True, False, True, False
 - (d) False, False, False, True
5. Which of the following is not considered as a supply under the CGST Act, 2017?
- (a) Importation of architectural services for Rs.1,00,000/- for construction of residential property used for personal purposes from unrelated person.
 - (b) Importation of architectural services free of cost for construction of office used for business purposes from related person.
 - (c) Importation of architectural services free of cost for construction of office used for business purposes from unrelated person.
 - (d) Both (a) and (c)
6. Which of the following is not a supply under the CGST Act, 2017?
- a) Food supplied free of cost by Mr. A (Owner of a Restaurant) to his agent for further supply to customer at Rs.500/.
 - b) Importation of accounting services free of cost from father residing in US.
 - c) A Rolex watch gifted to an employee for Rs. 50,000/.
 - d) A machinery given free of cost to an employee on which input tax credit was availed by the employer.
7. Mrs Reena is a consultant. She has provided the following details relating to services provided and received by her:

1. Supply of management consultancy services for Rs.500,000/- p.a.
2. Supply of accounting services for Rs.200,000/- p.a.
3. Renting of immovable property for residential purposes for Rs.10,000/- p.m.
4. Management consultancy services provided to a hospital for Rs.50,000/- one time
5. Services provided to a client outside India for Rs.50,000/- p.m.
6. Services received from a lawyer for Rs.100,000/-

Calculate her aggregate turnover for a year under GST.

- a) Rs. 9,10,000
 - b) Rs.15,70,000
 - c) Rs. 14,70,000
 - d) Rs. 8,20,000
8. Which of the following is valid?
- (i) Imposition of countervailing duty and anti-dumping duty on same article;
 - (ii) Countervailing duty has been imposed on an article for the reason that same is exempt from duty borne by a like article when meant for consumption in country of origin;
 - (iii) Imposition of anti-dumping duty on articles imported from a member country of WTO on determination that import of such article materially retards the establishment of any industry in India.
- (a) All of above;
 - (b) (i) and (ii);
 - (c) (i) and (iii);
 - (d) Only (iii)
9. Social welfare surcharge is leviable on-
- (i) Basic Customs Duty;
 - (ii) IGST;
 - (iii) Anti-Dumping Duty;
 - (iv) GST Compensation Cess
- (a) Only (i)
 - (b) (i) + (ii) + (iii)
 - (c) (i) + (ii) + (iv)
 - (d) (i) + (iii)
10. Electric shaving machine is classifiable under following:
- 8510: Shavers and hair clippers with self-contained electric motors;
- 8509: Electro mechanical domestic appliances with self-contained electric motor
- As per rules of classification, electric shaving machine should be classifiable under
- (a) 8510

- (b) 8509
 - (c) More information is needed;
 - (d) Can be classified under both
11. Which of the following is correct?
- (i) Cases which are specially designed or fitted to contain a specific article and given with the articles for which they are intended shall follow the classification of items which are packed;
 - (ii) Packing materials whether capable of repetitive use or not, cleared along with goods, are classifiable with goods.
- (a) (i)
 - (b) (ii)
 - (c) Both
 - (d) None
12. The transaction value of imported goods is not accepted for valuation purposes when:
- (i) The use of the imported goods by the buyer is subject to the restrictions imposed by the seller which substantially affect the value of goods;
 - (ii) The buyer and seller are not related;
 - (iii) Price is not the sole consideration for sale.
- (a) (i) and (iii)
 - (b) Only (i)
 - (c) Only (iii)
 - (d) All of above
13. The relevant date for determining the rate of exchange in case of imported goods is:
- (a) Date when the vessel arrives in India;
 - (b) Date of presentation of bill of entry
 - (c) Date of examination of goods by proper officer;
 - (d) Date of deposit of duty
14. Which of the following is/are not correct for 'identical' goods' for valuation purposes under the Customs Act, 1962?
- (i) Identical goods are same in all respects, including physical characteristics, quality and reputation as the goods being valued except for minor differences in appearance that do not affect the value of goods;
 - (ii) Identical goods can be produced in any country;
 - (iii) Identical goods are produced by same person who produced the goods being valued, or where no such goods are available, goods produced by a different person.
- (a) All of above;
 - (b) (i) and (iii)
 - (c) Only (ii)

- (d) Only (iii)
15. Which of the following values is not includible in the transaction value of goods under rule 10(1) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007
- (a) Buying Commissions
- (b) Royalties
- (c) License fees
- (d) Cost of packing

Answer Key

1	(d)	6	(c)	11	(a)
2	(a)	7	(c)	12	(a)
3	(d)	8	(d)	13	(b)
4	(c)	9	(a)	14	(c)
5	(c)	10	(a)	15	(a)