

**CA Final**  
**Answer Sheet - 2**

**Part A**

S.no	Ans	Hints
1)	(b)	Refer Sl no. 1 under reverse charge - RCM is applicable
2)	(a)	<ul style="list-style-type: none"> <li>➤ Aggregate t/o is within the limit of ₹ 1.5 Cr in F.Y. 2 &amp; hence, eligible for composition levy in C.F.Y.</li> <li>➤ Also, it can provide services upto higher of ₹ 5 lakhs or 10% of ₹ 1,11,25,000 i.e (₹ 1,02,00,000 + ₹ 9,25,000)</li> </ul>
3)	(c)	<ul style="list-style-type: none"> <li>➤ Manufacturer is liable to pay composition levy at 1% of t/o in state i.e. (₹ 10,20,000 + ₹ 92,550) whereas RCM liability shall be discharged at normal tax rate without availing any ITC i.e. ₹ 50,000 * 5%].</li> <li>➤ Interest on deposits is not to be considered in t/o in state.</li> </ul>
4)	(c)	Refer Sec 10(1) read with Rule 7, Suppliers making supplies referred to in clause (b) of paragraph 6 of Schedule II [i.e. "Restaurant, Catering where rate of tax is 2.5% each of Turnover in state, 12,00,000*2.5% = ₹ 30,000 Each
5)	(a)	As per Sec 13(2), TOS of services if invoice is not issued within time prescribed u/s 31, will be earlier of date of provision of service or date of payment.
6)	(c)	As Krishna brothers has started providing repairing services so will be ineligible u/s 10(1) & 10(2) & its turnover is ₹ 48L so can avail benefit of composition u/s 10 (2A)
7)	(d)	Goods transport operator is not a GTA as it is not issuing consignment note & hence, the service is exempt under sl. No. 18 of exemption
8)	(b)	The customers are not related & there is no consideration involved & hence, it is not a supply
9)	(d)	<ul style="list-style-type: none"> <li>➤ Elder brother is not dependent on Jaskaran &amp; hence, not treated as family as per sec 2(49).</li> <li>➤ There is no consideration involved &amp; hence, it is not a supply.</li> </ul>
10)	(b)	Refer Sec 12(2) read with N/No. 66/2017 – TOS is earlier of 5th May (last date to issue invoice u/s 31(1) or 6th May (invoice date)
11)	(c)	Refer sec 2(6), Aggregate T/o= ₹ 5,00,000 + ₹ 2,00,000 + ₹ 1,20,000 + ₹ 50,000 + ₹ 6,00,000, Legal service will be excluded as inward supply taxable under RCM.

**Part B**

**Answer 1:**

<b>2 M</b>	<p><b>a) Legal Provision: If supply of services is liable under reverse charge, then time of supply of services shall be the earliest of the following dates: [Sec 13(3)]</b></p> <p>a) <b>Date of payment</b> by recipient (i.e., earlier of book entry or debit to bank)</p> <p>b) <b>61st day</b> from supplier's invoice, in cases where invoice is required to be issued by the supplier or</p> <p>c) <b>Date of issue of invoice</b> (Self Invoice) by the Recipient, in cases where invoice is to be issued by the recipient.</p> <p><b>Discussion &amp; Conclusion:</b></p> <ul style="list-style-type: none"> <li>➤ In given case, ABC Consultants is <b>not registered</b> under GST, so it is not required to issue invoice, so condition of 61st day from issuance of invoice by supplier is <b>not relevant here</b>.</li> <li>➤ Thus, Time of Supply will be <b>earlier</b> of following: <ul style="list-style-type: none"> <li>a) Date of payment is May 02, 20XX.</li> <li>b) Date of issue of invoice by XYZ Pvt. Ltd. (recipient) is March 10, 20XX.</li> </ul> </li> <li>➤ Therefore , TOS will be <b>March 10, 20XX</b>.</li> </ul>
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3 M	<ul style="list-style-type: none"> <li>➤ In the second case, invoice is issued by ABC Consultants, So TOS will be earlier of:               <ul style="list-style-type: none"> <li>a) Date of payment is May 02, 20XX</li> <li>b) 61st date from the invoice issuance date by the supplier i.e May 5, 20XX</li> </ul> </li> <li>➤ <b>Thus, TOS will be May 02, 20XX.</b></li> </ul>				
2.5 M	<p><b>b) Legal Provision:</b></p> <ul style="list-style-type: none"> <li>➤ As per <b>explanation to section 14</b> of CGST Act 2017, in case of change in rate of tax, the date of receipt of payment is the <b>earlier</b> of the:               <ul style="list-style-type: none"> <li>- date on which the payment is entered in the books of account of the supplier or</li> <li>- date on which the payment is credited to his bank account.</li> </ul> </li> <li>➤ However, the date of receipt of payment is the date of credit in the bank account if such credit in the bank account is <b>after 4 working days</b> from the date of change in the rate of tax.</li> </ul> <p>As per <b>section 14(a)(iii)</b> of CGST Act 2017, if the service is supplied before the change in rate of tax and the invoice is issued after the change in rate of tax but the payment is received before such change in rate of tax, the <b>time of supply</b> will be date of receipt of payment.</p> <p><b>Discussion &amp; Conclusion:</b></p> <ul style="list-style-type: none"> <li>➤ In given case, Date of receipt of payment is <b>17th July 20XX</b> (ie earlier of 17th July or 20th July) &amp; Date of issue of invoice is 20th July 20XX (since lodge decided to issue invoice on date of credit of payment in its bank account.)</li> <li>➤ Since in the given case, Change in rate of tax is on 18th July, 20XX, &amp; Services have been supplied and payment has been received <b>before</b> such change in rate, <b>but</b> invoice is issued <b>after</b> the change in rate.</li> <li>➤ Thus, <b>time of supply is date of receipt of payment, viz. 17th July, 20XX.</b></li> <li>➤ Since the service of lodging upto a value of ₹ 1,000 was exempted at the time of supply, <b>no GST is payable</b> in the given case.</li> </ul>				
1.5 M	<p><b>c) The GST is to be discharged on the supply of spectrum allocation services by the recipient of services (the telecom operator) on reverse charge basis (RCM).</b></p> <table border="1"> <tr> <td>(i)</td><td>In case where <b>full upfront payment</b> is made by the telecom operator, GST would be payable when the payment of the said upfront amount is made or is due, <b>whichever is earlier.</b></td></tr> <tr> <td>(ii)</td><td> <ul style="list-style-type: none"> <li>➤ In case where <b>deferred payment</b> is made by the telecom operator in 18 monthly instalments, supply shall be considered as '<b>continuous supply of services</b>', since the services are being supplied continuously for a period exceeding 3 months with periodic payment obligations.</li> <li>➤ Since the due date of payment is ascertainable from the contract, the invoice shall be issued on or before such due date of payment as per the option exercised by the telecom operator.</li> </ul> </td></tr> </table> <p>Thus, in this case, GST would be payable as and when the payments are due or made, <b>whichever is earlier.</b></p>	(i)	In case where <b>full upfront payment</b> is made by the telecom operator, GST would be payable when the payment of the said upfront amount is made or is due, <b>whichever is earlier.</b>	(ii)	<ul style="list-style-type: none"> <li>➤ In case where <b>deferred payment</b> is made by the telecom operator in 18 monthly instalments, supply shall be considered as '<b>continuous supply of services</b>', since the services are being supplied continuously for a period exceeding 3 months with periodic payment obligations.</li> <li>➤ Since the due date of payment is ascertainable from the contract, the invoice shall be issued on or before such due date of payment as per the option exercised by the telecom operator.</li> </ul>
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## Answer 2:

### Legal Provision:-

- As per **sec 10(1)**, A Registered Person, whose aggregate turnover in the PFY did not exceed ₹ 1.5 Cr. may opt to pay tax under composition levy.
- As per **2nd proviso to sec 10(1)** 'Marginal Service'
  - Allows for marginal supply of services along with goods and/or restaurant services.
  - This marginal limit for supply of services is available in addition to restaurant services.
  - The specified value should not exceed either

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- ✓ 10% of the turnover in a State/UT in the preceding financial year or
- ✓ ₹ 5 lakh, **whichever is higher.**

**Discussion & Conclusion:-**

1 M	i) In given case, M/s. Rajbeer & Sons, engaged in business of selling goods relating to interior decoration, is eligible for composition scheme in the financial year 20YY-ZZ since its aggregate turnover is ₹ 80 lakh in financial year 20XX-YY which does not exceed ₹ 1.5 crore.
2 M	ii) <ul style="list-style-type: none"><li>➤ If Karan wishes to start business of providing services relating to interior decoration under the same firm name M/s Rajbeer &amp; Sons, the sole proprietorship needs to be first converted into a partnership firm.</li><li>➤ Further, new GST registration under the new PAN is required to be obtained.</li><li>➤ In such a case, the firm can provide services relating to interior decoration up to a value of ₹ 5 lakh (10% of zero turnover of last year or ₹ 5 lakh, whichever is higher) to continue enjoying the benefit of composition scheme in financial year 20YY-ZZ.</li></ul>

**Answer 3:**

**The GST implications for Maxx Pay in various aspects of its voucher business are as follows:**

**1. Issuance of Vouchers:**

1 M When Maxx Pay issues RBI-recognized prepaid instruments (PPIs) like multi-brand gift cards, these are considered 'money' under Section 2(75) of the CGST Act. Since money is not a supply, no GST is applicable at the time of issuance. For non-RBI-recognized vouchers, these are typically classified as 'actionable claims', which are also excluded from GST under Schedule III, hence **no GST** applies on issuance.

**2. Redemption of Vouchers:**

1 M GST becomes applicable at the time of redemption when the voucher is used to purchase goods or services. The supply of goods or services against the voucher is taxable, and GST is charged by the seller based on the nature of the underlying supply.

**3. Distribution on Principal-to-Principal Basis:**

1 M When Maxx Pay sells vouchers to distributors at a discount (e.g., ₹ 5,00,000 sold for ₹ 4,90,000), the distributor earns a margin. This is treated as trading in money/actionable claims, which does not constitute supply under GST. Therefore, **no GST is applicable** on the margin earned by the distributor in this model.

**4. Distribution on Commission/Agency Basis:**

1 M In cases where agents sell vouchers on behalf of Maxx Pay and receive a commission, they are providing a supply of service. This commission is subject to GST, and the agent must charge and pay GST on the commission received, as it is taxable under the forward charge.

**5. Additional Services (e.g., Tech & Marketing Support):**

1 M Third-party service providers who offer advertising, technology support, co-branding, or customer services to Maxx Pay are rendering independent taxable services. These services are not part of voucher trading but are subject to GST, and the service providers must charge GST on the consideration received.

**6. Breakage (Unredeemed Vouchers):**

1 M The unredeemed portion of vouchers (₹ 2,00,000 in this case) is referred to as breakage. As per Circular No. 178/10/2022, there is no actual supply of goods or services in the case of unredeemed vouchers. Also, there is no agreement between the issuer and redeemer to forfeit or refrain from any act. Hence, the breakage amount is **not a taxable supply**, and no GST is payable on the unredeemed value.

**Answer 4:****Sitting fee paid to director –**

- As per **reverse charge notification**, tax on services supplied by a director of a company/ body corporate to the said company/ body corporate, located in the taxable territory, is payable under reverse charge.
- Hence, in present case, sitting fee of ₹ 25,000, payable to Arpan Singhania by Narayan Limited, is liable to GST under **reverse charge**.
- Thus, recipient of service - Narayan Limited – is liable to pay GST on the same.

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**Salary paid to director –**

- As per **CBIC clarification**, part of director's remuneration which is declared as **salary** in books of a company and subjected to **TDS under section 192** of Income-tax Act, are **not taxable** being consideration for services by an employee to employer in the course of or in relation to his employment as per **para 1 of Schedule III**.
- Therefore, in the given case, the salary received by Arpan Singhania of ₹ 1.5 lakh is not liable to GST.

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**Services provided by Tapasya & Associates –**

- Tapasya & Associates have rendered certain professional services to Narayan Limited.
- The fact that Arpan Singhania is a partner in Tapasya & Associates and a director in Narayan Limited does not **have any impact on taxability** of professional services supplied by Tapasya & Associates to Narayan Limited.
- The professional services provided by Tapasya & Associates to Narayan Limited are liable to GST under forward charge and thus, supplier - **Tapasya & Associates – is liable to pay GST** on the same.

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**Answer 5:**

Particulars	Composition Scheme (₹)	Regular Scheme (₹)
Tax payable under GST law [For regular scheme, Outward Supplies excluding GST = ₹ 90,00,000 * 100/112 = ₹ 80,35,714.29]	90,000 [₹ 90,00,000 × 1%]	9,64,286 [₹ 80,35,714 × 12%]
<b>Less:</b> ITC on inward supplies	A person opting for composition scheme is not entitled to any ITC	8,40,000 [₹ 70,00,000 × 12%]
<b>Net amount payable under GST law</b>	<b>90,000</b> <b>[Forms part of cost]</b>	<b>1,24,286</b>
<b>Add:</b> Inherent Expenses	4,50,000	4,50,000
<b>Add:</b> Books of Account maintenance cost	75,000	2,00,000
<b>Add:</b> Return filing expenses	12,000	48,000
<b>Add:</b> Cost of inward supplies	78,40,000 [70,00,000 + (70,00,000*12%)]	70,00,000
<b>Total Cost involved</b>	<b>84,67,000</b>	<b>76,98,000</b>
<b>Sale Proceeds</b>	<b>90,00,000</b>	<b>80,35,714</b>
<b>Profit Margin (Sale proceeds less Total Cost)</b>	<b>5,33,000</b>	<b>3,37,714</b>

**Conclusion:** Thus, it can be concluded that Mr. X **should opt for composition scheme** for financial year 20XX-YY as it is more beneficial for him.

**Assumption:-** It has been assumed that GST is not charged on the inherent expenses, books of account maintenance cost, and return filing expenses

**Note by ICAI:-** Alternate presentations/ answers are possible.

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