



Chapter 2

Charge of Tax & Concept of Supply

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01. Sec 7:- Meaning & Scope of Supply

MCQ 1 Manavta Trust, a charitable trust registered u/s 12AB of Income-tax Act, 1961 & also registered under GST in Gujarat, received 500 laptops worth ₹ 50 lakh as gift from Dhruvtara Ltd. (a multinational company) free of cost for charitable purposes — with no intention of business promotion. The trust distributed these laptops free of cost to deprived students for assisting in their higher studies.

Choose the correct option. (ICAI Case 21 Sub-Q1)

[RTP May 23]

- (a) Free laptops distributed to the deprived students is not a supply under GST
- (b) Free laptops distributed to the deprived students is a supply under GST
- (c) Laptops are not goods under GST & hence, cannot be treated as supply
- (d) None of the above statement is correct

[Reason: As per sec 7(1)(a), option (a) is not a supply as it does not involve any flow of consideration from such students to the trust. Further, activity is not covered u/s 7 or under Sch 1]

MCQ 2 MM Charitable Trust, registered u/s 12AB of Income-tax Act, 1961, received following donations during Sept:

1. Mr. Sunil Sharma, proprietor of Solid Steels donated a RO water plant to trust costing ₹ 75,000 and displayed his firm name in the RO system installed at the premises of the trust as "Donated by Mr. Sunil, owner of Solid Steels -trusted by all'.

2. Mr. Prasanna, a lawyer, donated chairs to the trust costing ₹ 25,000 and 'Love all' is printed on them.

3. Miss Purvi, registered in Madhya Pradesh, donated money to the trust in the memory of her late father. The trust constructed a room in the school run by it from such donation and wrote "Donated by Miss. Purvi in the memory of her father" on the door of the room so constructed.

Determine the value of taxable supply in respect of the donations received by the trust. (ICAI Case 29 Sub-Q1)(ICAI Case 41 Sub-Q 2)

- (a) ₹ 25,000
- (b) ₹ 75,000
- (c) ₹ 1,00,000
- (d) Nil

[Reason: 1) CBIC clarified: If donation is received with specific instructions/mutual understanding between donor & receiver that the same will advertise or promote business of the donor (eg. display of donor's business name), such donation will be subject to GST.

2) When there is no quid pro quo (obligation) on the trust to do anything in return for donation & displaying or writing anywhere (eg. display of social message "Love all", "Donated by Miss. Purvi in memory of her father") is merely an acknowledgement, not an advertisement or business promotion, the purpose is purely philanthropic with no commercial gain. There is no supply at all.]

02. Para 2 of Sch 1: Supply between Related Persons/Deemed Distinct Person read with Explanation to Sec 15 – Related Persons, Sec 2(49) – Family & Sec 25(4)/(5) – Deemed Distinct Person

MCQ 3 Ecotech Solutions Private Limited is registered under GST in both Gujarat & Maharashtra under same PAN. Goods ₹1 Crore were originally sold from Gujarat unit in Jan. The same goods ₹1 lakh were returned by customer to Maharashtra unit of the company due to defect. The customers who returned goods issued an invoice to Gujarat unit of ₹ 10,000 for the expense related to return of goods. Subsequently, the company moved the goods from Maharashtra unit back to Gujarat unit (original place of supply).

While moving the goods from Maharashtra unit to Gujarat unit by the company, goods shall be accompanied by ----- (ICAI Case 11 Sub-Q1 - Similar) (ICAI Case 35 Sub-Q 6)

- (a) Original invoice issued in Jan.
- (b) Invoice issued by the returning customer to the Gujarat unit of the company.
- (c) Invoice by Maharashtra unit to the Gujarat unit of the company.
- (d) Delivery challan issued by the Customer to the Company.

[Reason: Gujarat & Maharashtra unit of the Company are distinct entities as per sec 25(4), thus, movement of goods between the same shall be considered as inter-State supply of goods as per para 2 of Sch 1 & an invoice



shall be issued by the dispatching unit to the receiving unit. The fact that goods move on a delivery challan or that PAN is common is irrelevant.]

MCQ 4 M/s Fashion Freaks (FF) is a partnership firm trading in garments and fabrics. It has 3 branches within Madhya Pradesh being Branch-A, B and C & has obtained 2 GST registrations under same PAN (registration-1 for Branch A & B & registration-2 for Branch C). During October, Branch-C transferred goods ₹14,50,000 to Branch-A and ₹11,25,000 to Branch-B. Value of taxable outward supply on account of stock transfers for October for Registration-2 will be: [ICAI Case 19 Sub-Q2]

- (a) ₹14,50,000
- (b) ₹11,25,000
- (c) Nil
- (d) ₹25,75,000

[Reason: Since Branch-C is covered under a separate GST registration (Registration-2), transfers made by it to Branch-A and Branch-B (covered under Registration-1) are supplies between distinct persons u/s 25(4) and are taxable even without consideration being supply as per para 2 of Sch I.]

MCQ 5 Kailash Furniture Store has Unit 1 (manufacturing) and Unit 2 (showroom) — both located in Pune, Maharashtra and operating under a single GST registration. On 1st June, Unit 1 transferred 10 sofas valued at ₹3 lakh to Unit 2 for the purpose of sale. Whether transfer of sofas from

unit 1 to unit 2 will be considered as supply? (ICAI Case 14 Sub-Q 1) (ICAI Case 19 Sub-Q1- similar)

- (a) Yes, this transfer will be considered as deemed supply hence taxable.
- (b) No, as transfer between two units under single GST registration, will not be considered as supply.
- (c) No, transfer between two units whether under single GST registration or separate registration will not be considered as supply as this is self-supply.
- (d) Yes, under GST transfer from one unit to other is considered as supply but it will be exempted from GST.

[Reason: The transfer is merely from one place to another place within the same registration & thus, they are not distinct persons u/s 25(4). It shall not be construed as supply under para 2 of Sch I.]

MCQ 6 Mr. Lala is engaged in supply of tiles and marbles in Telangana, not registered under GST. He availed the following services free of cost as both were his relative / family member respectively as under:

Service 1: Godown construction services for business from his brother-in-law who was dependent on him.

Service 2: Professional consultancy services for business from his son (a Company Secretary) who is not dependent on him.

In respect of services availed by Mr. Lala, which of the following is a correct statement? (ICAI Case 28 Sub-Q1)

- (a) Godown construction service availed from his brother-in-law free of cost is considered as a deemed supply
- (b) Professional service availed from his son free of cost is considered as a deemed supply
- (c) Neither of the services is a deemed supply
- (d) Both services are deemed supply

[Reason: Deemed supply as per para 2 of Sch I covers transactions with related persons when made in the course or furtherance of business and as per the definition of "Family", Mr. Lala's son is a related person, but the definition of family excludes "brother-in-law" even if he is dependent on Mr. Lala. Therefore, the transaction between Mr. Lala and his brother-in-law is not a deemed supply]

MCQ 7 XYZ Electronics Pvt. Ltd. is a leading electronic goods manufacturing company in Delhi. The company is planning to demerge its laptop and computer accessories operations from the next F.Y.. The demerged entity "PR Ltd." will be a separate legal entity of the Company in form of a wholly owned subsidiary of the Company having common Board of Directors. How shall PR Ltd. be treated under the provisions of GST Law? (ICAI Case 34 Sub-Q3)

- (a) PR Ltd. shall be treated as a related party of XYZ Electronics Pvt. Ltd.
- (b) PR Ltd. shall be treated as a distinct entity of XYZ Electronics Pvt. Ltd.
- (c) PR Ltd. shall be treated as an additional place of



business of XYZ Electronics Pvt. Ltd.

(d) PR Ltd. shall be treated as sole selling agent of XYZ Electronics Pvt. Ltd.

[Reason: PR Ltd. is a separate legal entity (not the same entity), hence it cannot be a distinct person under GST. However, since it has common Board of Directors with XYZ Electronics Pvt. Ltd., it qualifies as a related person as per the Explanation to Sec 15, which states that persons shall be deemed to be related if they have common officers/directors controlling each other]

03. Para 3 of Sch 1: Supply between Principal & Agent

MCQ 8 Mr. Handsome, del-credere agent (DCA) of Charm Limited, agrees to raise invoices in his own name and also guarantees for the realization of payments from customers to Charm Limited. In order to realize the payments from customers on time, he extends short-term transaction-based loans to them and charges interest for the same. For the month of March, sale of goods by Mr. Handsome in his DCA capacity is ₹ 2,80,000 and interest earned from the said customers for short term credit facility provided for timely payment of dues is ₹ 20,000. Further, commission charged from Charm Limited in respect of DCA services provided is ₹ 30,000. The value of supply of goods to customers is and value of supply of agency services to Charm Limited is

(a) ₹ 2,80,000, ₹ 30,000

(b) ₹ 20,000, Nil

(c) ₹ 3,00,000, ₹ 30,000

(d) ₹ 20,000, ₹ 30,000

[Reason: CBIC clarified – if agent issues invoice in his own name, then interest will be included in value supply of goods and commission will be considered as supply of service. Value of goods = ₹ 2,80,000 + ₹ 20,000 = ₹ 3,00,000. Value of service = ₹ 30,000.]

04. Para 4 of Sch 1: Importation of service read with Sec 7(1)(b) – Import of service for consideration, Explanation to Sec 15 – Related Persons & Sec 2(49) – Family

MCQ 9 Paradize Resorts (registered, Rajasthan) availed interior designing services for the hotel interiors free of cost from DEF Interiors, Japan. The proprietor of DEF Interiors is the son of one of the partners of Paradize Resorts. Whether there will be any GST liability on interior designing services provided free of cost by DEF Interiors? (ICAI Case 3 Sub-Q 3)

(a) Yes, since import of services from a related person in the course or furtherance of business is treated as supply even if made without consideration.

(b) No, since no consideration was paid, the same is not taxable.

(c) No, import of services from a related person is exempt.

(d) Yes, fully taxable irrespective of whether used for business or personal purposes.

[Reason: As per para 4 of Sch 1 – it is deemed supply liable to GST as DEF Interiors is a related person (proprietor is son of partner), service imported is used for hotel business without consideration.]

MCQ 10 M/s. Veena & Co., Jabalpur, is registered under GST under composition scheme. During Aug, the firm imported the following services:

(a) Architect services from Mr. Vinod, a partner of the firm, who resides in France for ₹ 1,00,000. The said service was paid but not used for the furtherance of the business.

(b) Management consultancy services from Mr. Lal, a renowned lawyer in Sweden, who was an ex-employee of the firm. The value of the said service was ₹ 3,00,000. Even though it was used in the furtherance of the business, no consideration was paid by the firm.

Import of services by Veena & Co. that will be treated as supply is ₹ _____. (ICAI Case 18 Sub-Q1) (ICAI Case 37 Sub-Q2)

(a) Nil

(b) ₹ 1,00,000

(c) ₹ 3,00,000

(d) ₹ 4,00,000

[Reason: 1) As per sec 7(1)(b), Supply includes importation of services for consideration whether or not in course or furtherance of business. Thus, the services from Mr. Vinod is a supply.

2) Refer para 4 of Sch 1, Mr. Lal is not a related person and therefore his service is not a supply.]



MCQ 11 Safe Bank Ltd., a small finance bank registered under GST, undertook the following two transactions:

- 1) Received software support service free of cost from its Head Office (HO) located in United Kingdom for business purpose.
- 2) Provided one high-end laptop worth ₹ 50,000 to its new Managing Director (MD) & to each of the four employees also as a gift.

Which of the following statements is correct under GST law?

- (i) Receipt of software support service by Safe Bank Ltd. from HO is supply.
- (ii) Issue of laptop to new MD as gift is supply & whereas to each employee is not.
- (iii) Receipt of software support service by Safe Bank Ltd. from HO is not a supply.
- (iv) Issue of laptop to new MD & each of the four employees as gift is not a supply. (ICAI Case 27 Sub-Q1) (ICAI Case 30 Sub-Q4 – Similar)

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

[Reason: Laptop is exactly ₹ 50,000 i.e. not exceeding ₹ 50,000 in a F.Y. gifted to an employee by employer & thus, is not a deemed supply as per para 2 of Sch I. But the software support service received from HO is a supply as per para 4 of Sch I.]

05. Sec 8: Composite & Mixed supply

MCQ 12 ABC Ltd. (registered in Rajasthan) rented out a commercial space to a registered tenant at a monthly rent of ₹ 50,000. ABC Ltd. is responsible for maintenance of the premises. During April, it incurred expenses on maintenance related materials (GST rate 5%) which are recoverable from the tenant along with the invoice issued for rent. The rate of GST on rent is 18%. For the transaction related to renting of commercial space, what should be the rate of tax charged by ABC Ltd.? (ICAI Case 23 Sub-Q1)

- (a) The rate of GST on rent and maintenance material related recovery shall be 18%.
- (b) The rate of GST on rent shall be 18% and, on the material, shall be 5%.
- (c) No GST shall be charged on the recovery related to material used in maintenance. Rate of GST on rent shall be 18%.
- (d) The rate of GST on rent and maintenance material related recovery shall be 5%.

[Reason: This is a composite supply – renting (principal supply @ 18%) whereas maintenance material recovery (ancillary). Entire supply taxed at principal supply rate of 18%.]

MCQ 13 Mr. Rajeev Sharma, registered in Jaipur, Rajasthan, supplied goods ₹2,50,000 to Velocity Ltd. of Jodhpur, Rajasthan on 22nd Nov & issued invoice on 23rd Nov. He also sold a laptop along with a lapdesk for a single consolidated price of ₹1,25,000 to

Zenith Pvt. Ltd., registered in Ahmedabad, Gujarat on 28th Nov. GST rate on laptop is 18% and on lapdesk is 12%. GST payable on outward supply for Nov is: (ICAI Case 49 Sub-Q2)

- (a) IGST - ₹22,500, CGST - ₹6,250, SGST - ₹ 6,250
- (b) IGST - ₹ 15,000, CGST - ₹ 6,250, SGST - ₹ 6,250
- (c) IGST - Nil, CGST - ₹ 13,750, SGST - ₹ 13,750
- (d) IGST - Nil, CGST - ₹ 17,500, SGST - ₹ 17,500

[Reason:

Particulars	Value(₹)	IGST (₹)	CGST (₹)	SGST (₹)
Supply to Velocity Ltd. (within Rajasthan – intra-state – @2.5% each CGST & SGST)	2,50,000	-	6,250	6,250
Supply of laptop along with lapdesk to Zenith Pvt. Ltd. (Inter State – IGST @18%) (It is a composite supply where laptop is principal supply taxed @18%. So, 18% applies on whole transaction.)	1,25,000	22,500	-	-
Total GST Payable		22,500	6,250	6,250

MCQ 14 Purvi, registered in Madhya Pradesh, received an order from Bindusar Public School for supply of 2,000 gift packages at a single price of ₹ 250 per package on 28th Oct. Each package consists



of:

- Fountain Pen — GST @ 5%
- Calculator — GST @ 5%
- Tape Dispenser — GST @ 18%

These items are packed together and supplied at a single price. The value of each item is not separately mentioned.

Determine the nature of supply and the applicable rate of GST for the packages supplied by Purvi to Bindusar Public School. (ICAI Case 29 Sub-Q3)

- (a) composite supply & applicable rate of GST is 5%
- (b) mixed supply & applicable rate of GST is 18%
- (c) composite supply & applicable rate of GST is 18%
- (d) mixed supply & applicable rate of GST is 5%

[Reason: Supply of fountain pen, calculator and tape dispenser is not a supply wherein one of the supply is a principal supply and these are **not naturally bundled**. Therefore, the supply is a **mixed supply & highest tax rate shall be applied for the whole supply.**]

Answer:-

01	a
02	b
03	c
04	d
05	b
06	b
07	a
08	c
09	a
10	b
11	b
12	a
13	a
14	b

