MOCK TEST PAPER 1

FINAL (NEW) COURSE: GROUP – II

PAPER – 6F: MULTIDISCIPLINARY CASE STUDY

SUGGESTED ANSWERS / HINTS

CASE STUDY 1:

Part A

1. (a) Rs. 48,00,000

Reason: As per section 50C of the Income Tax Act, 1961, the consideration received i.e. Rs. 48 Lakhs or stamp duty value (SDV) i.e., Rs. 50 Lakh, whichever is higher, shall be considered as full value of consideration. However, where SDV does not exceed 105% of the consideration, the consideration received shall be deemed as full value of consideration.

2. (d) Nine employees who joined on 01-05-2018 whose monthly emolument is within the limit of Rs. 25,000 and payment is made through account payee cheque.

Reason: As per section 80JJAA of the Income Tax Act, 2019, only nine employee's' salary shall be considered for the purpose of calculation of additional deduction allowed in respect of emoluments paid to new employees as follows-

Total new employees = 20 (a) Amount paid to 5 employees, joined in November 2018, are not eligible for computation of deduction since they are employed for less than 240 days in the relevant Previous Year. (b) Amount paid to other 5 employees, joined in May, 2018, are not eligible for computation of deduction since their total emolument exceeds Rs. 25,000 per month. (c) Amount paid to another 1 employee, who is paid by bearer cheque, his salary is not eligible for deduction under section 80JJAA. Since the condition to claim deduction is that payment of salary should be made by account payee cheque or through banking channel. (d) Amount paid to remaining 9 employees are eligible for claiming deduction.

3. (d) Mars Construction Ltd. is mandatorily required to constitute a Corporate Social Responsibility Committee of the Board as it is having net worth more than Rs. 500 crore.

Reason: As per section 135 of the Companies Act, 2013 on Corporate Social Responsibility, every company having net worth of Rs. 500 crore or more, or turnover of Rs. 1,000 crore or more or a net profit of Rs. 5 crore or more during the immediately preceding financial year is required to constitute a Corporate Social Responsibility Committee of the Board.

4. (a) Rs. 7,27,650

Reason: Calculation of deduction section 80JJA of the Income Tax Act, 1961-

Particulars	**Amount (Rs.)**
Total number of New Employees = 20 (a) Amount paid to 5 employees, joined in November 2018, are not eligible for computation of deduction since they are employed for less than 240 days in the relevant Previous Year. (b) Amount paid to other 5 employees, joined in May, 2018, are not eligible for computation of deduction since their total emolument	

exceeds Rs. 25,000 per month. (c) Amount paid to another 1 employee, who is paid by bearer cheque, his salary is not eligible for deduction under section 80JJAA. Since the condition to claim deduction is that payment of salary should be made by account payee cheque or through banking channel. (d) Amount paid to remaining 9 employees are eligible for claiming deduction i.e. 9 employees x Rs. 24,500 x 11 months	24,25,500
Deduction under section 80JJA (30% of Rs. 24,25,500)	Rs. **7,27,650**

5. **(d)** Rs. (36,364)

Reason: Calculation of gain/ loss chargeable to tax under the head 'Capital Gain'-

Particulars	**Amount (Rs.)**
Value of consideration	48,00,000
Less: Indexed Cost of Acquisition Rs. 38 Lakh x 280/220	48,36,364
Capital Gain/ Loss	**(36,364)**

Part B

6. **Calculation of Profits and Gains from Business or Profession of Mars Construction Ltd. for Assessment Year 2019-20**

S.No.	**Particulars**	**Amount (Rs.)**	**Amount (Rs.)**
	Net Profit as per Profit & Loss Account		**35,50,00,000**
	Add:		
(i)	**Interest to public financial institution** [Disallowance under section 43B would be attracted for A.Y.2019-20, since the interest is paid after 30.9.2019, being the due date of filing of return]	3,00,000	
(ii)	**Fees for Technical services paid to Non-Resident** [Disallowance of 100% of the amount paid towards fees for technical services to a non-resident without deduction of tax at source would be attracted under section 40(a)(i). Tax deducted subsequently was also paid after the due date 30.9.2019]	6,00,000	
(iii)	**Damages paid to State Government for defects in construction of flyover** [Payment of damages as per the terms of the contract for defects in construction is compensatory in nature and incurred in the normal course of construction business, and hence, such expenditure is deductible under section 37. Since such payment is debited to the statement of profit and loss, no further adjustment is required].	Nil	
(iv)	**Depreciation**	20,00,000	

	Depreciation as per Books of Account has to be added back. Depreciation computed as per Income Tax Act is allowed as deduction		
(v)	**Marked to Market Losses** [As per ICDS I, marked to market losses cannot be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. Since such losses have been debited to the statement of profit and loss, they have to be added back for computing business income]	6,00,000	**35,00,000**
			35,85,00,000
	Less:		
(vi)	**Profit on sale of Land to Neptune U.S.A., a wholly owned subsidiary company** [Income/ Loss is chargeable to tax under the head "Capital Gains". Since the same has been credited to statement of profit and loss, it has to be reduced while computing business income]	10,00,000	
(vii)	**Retention Money held by Public Sector Company** [ICDS III requires recognition of contract revenue, including retention money, on percentage of completion method. Since such amount has been credited to the statement of profit and loss, no adjustment is required]	Nil	
(viii)	**Interest on FDR with Bank** [Since the fixed deposit has been made with a bank as margin money for obtaining a guarantee required by a State Government for a particular contract, interest income of such deposit is inextricably linked to the business of the assessee and hence has to be treated as business income and not as income from other sources. Since the same has been credited to the statement of profit and loss, no adjustment is required]	Nil	
(ix)	**Dividend from RIET** (a) Component of Short Term Capital Gains [Short-term capital gain component of Rs.6 lakhs is taxable in the hands of REIT and hence, exempt in the hands of the unit holder under section 10(23FD). Since Rs. 6 lakhs has been credited to the statement of profit and loss, the same has to be deducted for computing business income] (b) Component of Rental income [As per section 115UA(3), such income would deemed income in the hands unit holder. By virtue of section 115UA(1), income distributed by REIT to	6,00,000 Nil	

	a unit holder would be deemed to be of the same nature and same proportion in the hands of the unit holder as it had been received by or accrued to the REIT. Accordingly, rental component of income would be taxable under the head "Profits and gains of business and profession", since REIT is engaged in the business of letting out real estate properties. Since Rs. 4 lakhs has been credited to the statement of profit and loss, no adjustment is required]		**16,00,000**
			35,69,00,000
(x)	**Less:** Depreciation as per Income Tax Act		**25,00,000**
	Profits and Gains from Business or Profession		**35,44,00,000**

7. **Principal Audit Procedures:** The audit procedures may include the following-

(a) Obtaining understanding of key uncertain tax positions;

(b) Obtaining details of completed tax assessments and demand for the current year from the management,

(c) Along with internal tax experts -

- (i) Discussing with appropriate senior management and evaluate the Managements' underlying key assumptions in estimating the tax provision;
- (ii) Assessing management's estimate of the possible outcome of the disputed cases; and
- (iii) Considering legal precedence and other rulings in evaluating management's position on these uncertain tax positions.

(d) Considering the effect of new information in respect of uncertain tax positions as at the beginning of the year to evaluate whether any change is required to management's position on these uncertainties.

CASE STUDY 2:

Part A

1. **(b)** No, the auditor has not reported as per the reporting requirement which requires stating the steps taken by the company for securing refund of the same.

Reason: As per clause (xi) of Para 3 of CARO, 2016, the auditor of a company has to report whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same.

2. **(d)** The intermittent vacancy of a woman director can only be filled by the Board not later than immediate next Board Meeting or three months from the date of such vacancy whichever is later. Thus, the appointment is valid.

Reason: As per section 149(1) of the Companies Act, 2013 read with the Companies (Appointment and Qualification of Directors) Rules, 2014, the Board shall fill the vacancy by 18th August, 2018 or by 18th September, 2018 (i.e. 3 months from the date of such vacancy) whichever is later. In the given case, it has been filled on 18th September, 2018, thus the appointment is valid.

3. **(b)** HawaSanch Ltd., a public company, which has a paid up capital of Rs. 100 crore.

Reason: The LODR Regulations shall apply to the listed entity who has listed designated securities on recognised stock exchange.

4. **(c)** It is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Thus, the presentation as contingent liability under notes to financial statements is correct.

Reason: As per Ind AS 37, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In the given case, the appeal is pending before the court which is a possible obligation because the liability for payment arising or not is dependent on the outcome of court decision.

5. **(c)** Auditor's responsibilities for assessing the entity's ability to continue as a going concern.

Reason: As per SA 700, the auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements.". This section of the auditor's report shall describe management's responsibility for assessing the entity's ability to continue as a going concern.

Part B

6. SA 706 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report', provides that if the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided:

(a) The auditor would not be required to modify the opinion in accordance with SA 705 'Modifications to the Opinion in the Independent Auditor's Report' as a result of the matter; and

(b) When SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report' applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

(a) An uncertainty relating to the future outcome of exceptional litigation or regulatory action.

(b) A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.

(c) Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.

(d) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

In the given case, the auditor has included a paragraph on Emphasis of Matter which describes the uncertainties related to the legal outcome of Department of Telecommunications demand with respect to one-time spectrum charges. Further, the opinion is also not modified in respect of this matter.

Thus, all the conditions and circumstances have been considered by the auditor while including a paragraph on the Emphasis of Matter.

Therefore, the reporting is in accordance with SA 706.

7. **Statement of Cash Flows of VayuSanchar Limited**

Particulars	**Amount** (Rs.)	**Amount (Rs.)**
Cash Flows from Operating Activities		
Net Profit after Tax	1,40,00,000	
Add: Income Tax Paid	30,00,000	
Net Profit before Tax	**1,70,00,000**	
Add: Depreciation	15,00,000	
Less: Gain on Sale of Machine	(1,00,000)	
	1,84,00,000	
Change in Operating Assets and Liabilities		
Less: Increase in Other Non-Current Asset (Rs. 3,92,00,000 – Rs. 2,79,40,000)	(1,12,60,000)	
Less: Increase in Trade Receivables (Rs. 1,35,00,000 - Rs. 1,26,60,000)	(8,40,000)	
Add: Increase in Other Current Liabilities (Rs. 1,50,00,000 - Rs. 1,16,00,000)	34,00,000	
Add: Increase in Trade Payables (Rs. 2,55,00,000 - Rs. 1,70,00,000)	85,00,000	
Add: Increase in Payables for Expenses (Rs. 2,24,00,000 - Rs. 1,49,00,000)	75,00,000	
	2,57,00,000	
Less: Income Tax Paid	(30,00,000)	
Cash inflow from Operating Activities	**2,27,00,000**	2,27,00,000
Cash Flows from Investing Activities		
Sale of Property, Plant and Equipment during the year	9,00,000	
Purchase of Property, Plant and Equipment during the year [Rs. 8,44,00,000 – (Rs. 7,17,40,000 - Rs. 15,00,000 - Rs. 8,00,000)]	(1,49,60,000)	
Sale of Investments (Rs. 2,12,00,000 - Rs. 1,95,00,000)	17,00,000	
Cash outflow from Investing Activities	**(1,23,60,000)**	(1,23,60,000)
Cash Flows from Financing Activities		
Interim Dividend paid	(9,00,000)	
Long Term Borrowings paid (Rs. 3,90,00,000 - Rs. 2,25,00,000)	(1,65,00,000)	
Cash outflow from Financing Activities	**(1,74,00,000)**	(1,74,00,000)
Net Cash outflow from all the Activities		**(70,60,000)**
Add: Opening Cash and Cash Equivalents		1,44,60,000
Closing Cash and Cash Equivalents		**74,00,000**

CASE STUDY 3:

Part A

1. **(b)** Intangible Asset

   Reason: Para 8 of IND AS 38 defines and intangible asset as an identifiable non-monetary asset without physical substance.

   Further, para 21 and 22 give guidance on recognition of intangible asset.

   Accordingly, an intangible asset shall be recognised if an only if-

   (i) It is probable that the expected future economic benefit that are attributable to the asset will flow to the entity; and

   (ii) The cost of the asset can be measured reliably.

   In the instant case, the App is going to be used as a sales channel and the economic benefits are expected to flow to the company for more than one accounting period. The cost of developing the App can be measured reliably.

2. **(c)** Capitalized as part of SPM cost in PPE.

   Reason: Para 16 of Ind AS 16 say that-

   The cost of an item of property, plant and equipment comprises:

   (i) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

   (ii) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

   Since the imported equipment can't be put to use directly without calibration by the company, the cost of such calibration can be capitalized as part of the main asset.

3. **(a)** Will be treated as exchange loss and debited to P&L Account.

   Reason: Although the cost of exchange difference is associated with the property plant & equipment (PPE), it is a matter of payment schedule and hence does not impact the usability of the concerned asset, hence such cost cannot be capitalized as part of the asset.

4. **(c)** Conversion of LLP into company

   Reason: Since a LLP can't issue shares or other securities, the first compliance required is to convert the LLP into a company limited by shares.

5. **(d)** Rs. 18 Lacs

   Reason: Domestic and Perennial combination –

   Pomegranate Rs. 6 lacs + Grapes Rs. 4 Lacs = Rs. 10 Lacs

   Exports and Perennial combination –

   Mango Rs. 8 Lacs

   So, total cost of calibration = Rs. 18 lacs

Part B

6.

Cost of SPM for Mango	
Euro	96000
Exchange rate on the transaction date	79.12
INR cost	75,95,520
Add: Cost of shipping & installation	7,59,552
Calibration cost (as given)	8,00,000
Borrowing cost@ 10% for 13 months	8,22,848
Total cost capitalized for SPM Mango	**99,77,920**

(Calculation of borrowing cost = 75,95,520 x 10% x 13/12)

As per Para 21 of Ind AS 21 the exchange rate on the date of transaction shall be used for translation in the functional currency. Further, as per Appendix B of Ind AS 21, date of advance payment will be the date of transaction.

7. As per IND AS 16, the following disclosures are made in respect of each class of Property Plant & Equipment:

Special Purpose Machine

Gross carrying amount is determined based on cost of purchase as increased by the cost of making the asset ready to use. These costs are as follows:

(a) Cost of shipping and installation at the place of business.

(b) Cost of calibrating the SPM for the desired level of performance of the machine to suit the business requirement.

(c) Borrowing cost which is incurred wholly for the purpose of buying the SPM and since the same was required to be calibrated for a period of 13 months, it satisfied the criteria of qualifying asset as per IND AS 23

(d) The assets in this class are depreciated over the useful life from the date of being ready to use.

(e) The method of depreciation used is straight line method.

8. Operational break-even level in year 1:

Year -1 will operationally break-even at a revenue of Rs. 94.33 Lacs (adding all the costs) which means total no. of packages that need to be subscribed are:

Rs. 94.33 Lacs / Rs. 2000 = 4716.5 – since fractional package can't be subscribed, this number would be 4717 packages.

So, if each farmer buys on an average 10 packages, then the no. of farmers would be approximately:

4717/10 = 471.7 or 472 farmers.

CASE STUDY 4:

Part A

1. (c) (i), (ii) & (iv)

Reason: As per Rule-4 of the Companies (Meetings of Board and its Powers) Rules, 2014, above said matters shall not be dealt with in any meeting held through Video-Conferencing or other audio visual means.

2. **(d)** Sec.-197 not applicable to their Co.

Reason: Sec.-197 lays down the max. remuneration payable to Managerial Personal of a Public Co. and is not applicable to a Private Ltd. Co.

3. **(a)** AOC – 4, MGT – 7

Reason: Form AOC-4 is used for filing Annual Accounts & MGT-7 is used for filing Annual details w.r.t. Management of the Company with ROC annually.

4. **(a)** Aggregate consideration received for issue of shares as exceeds the fair market value of such shares.

Reason: As per the relevant CBDT notification, this Exemption has been provided to Start-ups from taxability under Section-56(2)(viib)of Income tax Act,1961.

5. **(c)** Computer or Computer Software.

Reason: The Company has to utilize this amount to purchase Computer or Computer Software.

Part B

6. **(a)** **Meaning of eligible business:** A business carried out by an eligible start-up engaged in –

- Innovation, development or improvement of products or processes or services or

- a scalable business model with a high potential of employment generation or wealth creation.

(b) Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing benefit of deductions under any provision of Chapter VI-A under the heading "C. – Deductions in respect of certain incomes". Hence , Haryali Pvt. Ltd. should file its IT Return on or before 30.09.2019.

(c) Haryali (P) Ltd. is an eligible start-up, since –

(1) it is a company engaged in eligible business of innovation of new products/services.

(2) it is incorporated during the period 1.4.2016 to 31.3.2021.

(3) its total turnover does not exceed Rs. 25 crores in the P.Y. 2018-19.

(4) it holds a certificate of eligible business from the notified IMBC.

Therefore, Haryali (P) Ltd., being an eligible start-up, is eligible for deduction under section 80-IAC of 100% of the profits and gains derived by it from an eligible business for any three consecutive assessment years out of seven years beginning from the year in which the eligible start up is incorporated i.e., P.Y.2018-19.

In the first and second year i.e., P.Y.2018-19 and P.Y.2019-20, Haryali (P) Ltd. has incurred a loss. In the P.Y. 2020-21, Haryali (P) Ltd. earns profits from eligible business and can hence, claim 100% of its profits as deduction for any three consecutive assessment years under section 80-IAC from the P.Y.2020-21 to P.Y.2024-25. However, for P.Y.2020-21, the profits eligible for deduction would be the profits after set-off of brought forward losses of P.Y.2018-19 and P.Y. 2019-20.

7. Section 173 of the Companies Act, 2013 provides for Meetings of Board. According to this section:

Frequency of Board Meetings [Section 173 (1)]:

(a) **First Board meeting:** Every company shall hold the first meeting of the Board of Directors within 30 days of the date of its Incorporation.

(b) **Subsequent Board meetings**: Every company shall hold minimum of 4 meetings every year provided that the gap between two consecutive board meetings shall not be more than 120 days.

However, the Central Government may by notification, direct that these provisions will not apply in relation to any class or descriptions of companies or will apply in relation thereto subject to such exceptions, modifications or conditions as may be specified in the notification. The same provisions are applicable in the case of Haryali (P) Ltd.

8. (a) Customer's Profitability Statement

Particulars	**Customer- X**	**Customer - Y**
Sales (units)	**35**	**50**
	(Rs.)	(Rs.)
Selling Price per unit	540	540
Less: Discount (Quantity)	27 (540 × 5%)	27 (540 × 5%)
Less: Discount (Delivery)	---	43.20 (540 × 8%)
Selling Price (Net of Discounts) per unit	513.00	469.80
Less: Variable Cost per unit	442.00	442.00
Contribution per unit	71.00	27.80
Total Contribution	2,485 (71 × 35 units)	1,390 (27.80 × 50 units)
Less: Additional Overheads		
Delivery Cost	175 (5 × 35)	---
Order Processing Cost	100 (5 × 20)	200 (10 × 20)
Profit per customer*	2,210	1,190
Profit per customer per unit	63.14	23.80

Analysis: Even though X has lower sales volume (30% lesser from Y), it is contributing more than double profit that is being contributed by Y as overall discount offered to customer X is quite less.

(b) Comments on the "Discount Policy on Delivery": Discount on delivery offered to customer Y is Rs.43.20 per unit. If transport for delivery is provided to customer Y then the cost would have been Rs.7 per unit (10 deliveries × Rs.35 / 50 units), which is lesser by Rs.36.20. It may also be noted that delivery cost in case of customer X is only Rs.5 per unit (Rs.175 ÷ 35 units). Hence, company needs to review discount policy on delivery but significance of profitability of customer Y should also be kept in mind while doing so.

CASE STUDY 5:

Part A

1. (c) (i),(ii),(iii) & (iv)

Reason: According to the Companies (Registration of Foreign Companies) Rules, 2014, "electronic mode" means carrying out electronically based, whether main server is installed in India or not, including, but not limited to -

(i) business to business and business to consumer transactions, data interchange and other digital supply transactions;

(ii) offering to accept deposits or inviting deposits or accepting deposits or subscriptions in securities, in India or from citizens of India;

(iii) financial settlements, web based marketing, advisory and transactional services, database services and products, supply chain management;

(iv) online services such as telemarketing, telecommuting, telemedicine, education and information research; and

(v) all related data communication services,

whether conducted by e-mail, mobile devices, social media, cloud computing, document management, voice or data transmission or otherwise.

2. **(b)** FC-1

Reason: According to the Companies (Registration of Foreign Companies) Rules, 2014, the required informations shall be filed with the Registrar within 30 days of the establishment of its place of business in India, in Form FC-1 along with prescribed fees and documents required to be furnished as provided in section 380(1).

3. **(a)** 100%

Reason: There are no such rule of minimum shareholding of the Indian Director.

4. **(c)** Aggregate of (a) & (b)

Reason: It is the aggregate of, -

(i) income from the transactions where both the purchase and sale of goods is from/to its associated enterprises; and

(ii) income by way of royalty, dividend, capital gains, interest or rental income.

However, any income by way of interest shall not be considered to be passive income in case of a company which is engaged in the business of banking or is a public financial institution, and its activities are regulated as such under the applicable laws of the country of incorporation.

5. **(d)** Debenture Trustee/ Nominated Director

Reason: "Senior Management" in respect of a company means the person or persons who are generally responsible for developing and formulating key strategies and policies for the company and for ensuring or overseeing the execution and implementation of those strategies on a regular and on-going basis. While designation may vary, these persons may include:

(i) Managing Director or Chief Executive Officer;

(ii) Financial Director or Chief Financial Officer;

(iii) Chief Operating Officer; and

(iv) The heads of various divisions or departments (for example, Chief Information or Technology Officer, Director for Sales or Marketing).

Part B

6. **(a)** The Companies Act, 2013 vide section 380 requires every foreign company to deliver to the Registrar for registration, within 30 days of the establishment of office in India, documents which have been specified therein. According to the Companies (Registration of Foreign Companies) Rules, 2014, any document which any foreign company is required to deliver to the Registrar shall be delivered to the Registrar having jurisdiction over New Delhi.

(b) The Companies Act, 2013 lays down the governing provisions for foreign companies in Chapter XXII which is comprised of sections 379 to 393. The penalties for non filing or for contravention of any provision for this chapter including for non filing of documents with the Registrar as required by section 380 and other sections in this chapter are laid down in section 392 of the Act which provides that if a foreign company contravenes the provisions of this Chapter, the foreign company shall be punishable with a fine which shall not be less than Rs. 1,00,000 but which may extend to Rs. 3,00,000 and in the case of a continuing offence, with an additional fine which may extend to Rs. 50,000 for every day after the first day during which the contravention continues and every officer of the foreign company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than Rs. 25,000 but which may extend to Rs. 5,00,000, or with both.

7. Ramesh returned to India on 12th June 2018 for permanently residing in India after staying in UK for 20 years. During the P.Y.2018-19, he stays in India for 293 days. Since he has stayed in India for a period of 182 days or more during the previous year 2018-19, he would be a resident in India for the A.Y.2019-20. However, he would be a resident but not ordinarily resident, assuming that he was a non-resident in nine out of ten previous years preceding P.Y.2018-19 and his stay in India during the seven previous years is less than 730 days. The residential status of Ramesh for A.Y.2019-20 is, therefore, Resident but Not Ordinarily Resident.

As per section 5(1), only income which is received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in India is taxable in case of a Resident but not Ordinarily Resident. Income which accrues or arises outside India shall not be included in his total income, unless it is derived from a business controlled in, or a profession set up in, India.

(a) Rental income from a flat in London which was deposited in a bank there shall not be taxable in the case of a resident but not ordinarily resident, since both the accrual and receipt of income are outside India.

(b) Dividends from shares of three UK Companies, collected in a bank account in London, would also not be taxable in the case of a resident but not ordinarily resident since both the accrual and receipt of income are outside India.

(c) As per section 64(1A), all income accruing or arising to a minor child is includible in the hands of the parent, after providing for deduction of Rs.1,500 per child under section 10(32). Accordingly, income of Rs. 20,000 accruing to his minor son, aged 12 years, in India is includible in the income of Ramesh, after providing deduction of Rs. 1,500. Therefore, Rs. 18,500 is includible in the income of Ramesh. Income accruing to the minor child outside India (which is also received outside India) is not includible in the income of Ramesh. Since the other son is major, his income is not includible in the income of Ramesh.

(d) Repatriation of sale proceeds of 1000 shares sold in the preceding accounting year, when Ramesh was a non-resident, is not taxable in the A.Y.2019-20 since it is not the income of the P.Y.2018-19.

Consequently, only the income includible under section 64(1A) would form part of the total income of Mr. Ramesh Ahuja for A.Y.2019-20. Since his total income (i.e., Rs. 18,500) is less than the basic exemption limit, there would be no liability to income-tax for A.Y.2019-20.

8. **(a)** The statement is correct. As per section 9(1)(vi), income by way of royalty payable by the Government of India is deemed to accrue or arise in India. “Royalty” means consideration for, inter alia, use of patent. Therefore, the amount paid by Government of India for use of patent developed by ‘Ahuja Designs Incorp.'(UK), a non-resident, is deemed to accrue or arise in India. Hence, it is taxable in India in the hands of the Company.

(b) The statement is incorrect. The CBDT vide Circular no. 8/2017 dated 23.02.2017 clarified that POEM guidelines shall not apply to a company having turnover or gross receipts of Rs. 50 crores or less in a financial year.