

Triveni Sangam- Confluence and Divergence , GST, Accounting and Income-tax

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1. Development Agreements:

A Pvt. Ltd. (“the Company”) is a private limited company, owned by one Mr. A and his family members. The Company was running a manufacturing unit in a factory building constructed by it in 1960s on a plot of land that is jointly owned by the Company along with one of its substantial shareholder, Mr. A in the ratio of 50:50. The manufacturing business has lost all its charm in view of disruption caused by new technology, which the Company was unable to keep pace with. The factory is shut down since last 5 years, major plant and machinery is either sold or discarded, workers given a golden handshake and all bank loans and other liabilities settled. The Company is now desirous of monetizing the plot of land. For this purpose, instead of selling the plot on an outright basis, the Company is exploring a possibility of engaging a developer who would redevelop the plot at its own cost and have an arrangement whereby the Company is also able to enjoy the upside of the developed property. The Company has amended its memorandum of association so as to include within its object clause the business of real estate development and trading. Also, the land and building standing in its books of account have been converted into stock-in-trade during the FY 2016-17 so as to reflect the Company’s intention of venturing into the real estate business. Such conversion has been made after carrying out revaluation of the land and building at the then prevailing stamp duty values. The revaluation surplus is presently carried in the Revaluation Account in the books of the Company. It may be noted that A Pvt. Ltd. has claimed and was allowed depreciation on the cost of construction of the building in the past years.

On the adjoining plot of land, stands a three-storied residential building, owned by a co-operative housing society (“the Society”). This building was constructed in the early 1970s and it requires substantial repairs or reconstruction. The residents of the building do not have sufficient funds to carry out the reconstruction on its own and are, therefore, interested in approaching a builder who can take up the redevelopment work.

B Developers Pvt. Ltd. (“the Developer”), a company engaged in the business of building and developing housing projects, has shown interest in entering into arrangements with both, A Pvt. Ltd. and the Society with the objective of combining the two plots, merging its FSI and developing a large residential complex. The Developer is a company to which Ind AS applies.

The Company and Mr. A are contemplating to enter into a development agreement with the Developer. Salient features of the proposed development agreement are as under:

- (a) The agreement will be entered into between:
 - a. A Pvt. Ltd and Mr A as parties of the first and the second parts, jointly referred to as “The Owners” on one hand; and
 - b. The Developer as the party of the third part, as “The Developer” on the other;
- (b) The Company shall allow the Developer to demolish the old factory building owned by it to enable the development;
- (c) The Owners shall allow the Developer to develop the plot and build a housing complex. Such development, however, shall be carried out by the Developer entirely at his own costs;
- (d) In consideration of the Owners so allowing the Developer, the Owners shall be entitled to:

- a. Certain specified constructed area in the newly built residential complex, the exact specifications thereof to be earmarked after the plans are approved by the local authority; and
 - b. Cash compensation, partly to be paid in advance on signing of the development agreement and partly to be paid based on the stage-wise completion of the residential complex.
- (e) The share of the two Owners in the constructed area shall be separately earmarked and the amount of cash compensation also shall be separately paid to each of the two Owners;
- (f) The Development Agreement shall be registered with the registering authorities;
- (g) It will be open for all the parties to enter into sale agreement with the prospective buyers of flats in the residential complex while the project is under construction, the only covenant being that the sale price should be above the threshold fixed by all parties with unanimous consent and reviewed from month to month;
- (h) The new complex is likely to be completed in 3 phases. First phase is likely to be completed in 24 months, the second in 48 months and the third in 60 months' time. While in the first two phases, the various buildings are likely to get ready, in the last phase, the common gardens, jogging track, swimming pool and other common facilities like gym, visitors' parking lot etc. will be taken up. Part completion certificates are likely to be received in corresponding phases.

Similarly, the Society is contemplating to enter into a separate development agreement with the Developer and the salient features of the proposed development agreement are as under:

- (a) The Society building has exhausted the entire FSI that was available to the builder when the construction had taken place. However, in view of the changes in the Development Regulations in 1991, the plot is eligible for additional FSI to the extent of 100% of the existing constructed area provided the old structure is demolished and TDR for such additional area is loaded on the project. The

Developer has agreed to load such TDR that he owns or may purchase in due course.

- (b) The members of the Society will hand over the vacant possession to the Developer of their respective flats during the FY 2018-19;
- (c) The Developer shall demolish the building, merge the plot with the adjoining plot by taking necessary approvals of the local authorities and construct a new residential complex entirely at his cost;
- (d) Each member of the Society will be handed over a new flat in the new complex within a period of 36 to 48 months;
- (e) Each member gets 20% additional carpet area in the new complex as compared to their current carpet area;
- (f) Each member also gets a compensation for undergoing hardship for displacement while the construction is going on and such hardship compensation is computed based on some agreed standard rentals of similar property in the nearby locality. Such payment would be made from quarter to quarter during the construction period and if the construction is delayed for any reason, for the extended period.
- (g) The Society will be paid a nominal amount of Rs, 1 crore towards the corpus in lieu of the Society allowing the Developer to undertake the development work. The stamp duty value of the entire land and building of the Society works out to Rs. 50 crores.

All the parties are desirous of knowing the implications under the income-tax and the GST laws in respect of the foregoing proposed arrangement. In addition, A Ltd and the Developer are also interested in understanding the accounting aspects of the entire project. They have raised the following queries for the opinion of the participants of the CTC RRC:

- 1.1 Are the provisions of section 45(5A) applicable to:

- a. Mr. A;
 - b. A Pvt. Ltd.;
 - c. The Society;
 - d. Members of the Society?
- 1.2 If the answer to query 1.1 above is in the affirmative, in which year would the capital gains liability arise in the assessments of the relevant assessee? This question gains significance, *inter alia*, in light of the fact that the completion certificate is expected to come in phases.
- 1.3 In cases where the provisions of section 45(5A) are not applicable, which year would the tax liability arise and how will it be computed?
- 1.4 In case of the Company, in computing the capital gains tax chargeable under section 45(2), will it be entitled to claim market value of the property as on April 1, 2001? This question becomes relevant in light of the fact that the provisions of section 55(2)(b) are amended w.e.f. April 1, 2018 by Finance Act, 2017, whereas the property was converted into stock-in-trade in FY 2016-17.
- 1.5 Mr.A is planning to construct a residential bungalow for himself and his family out of the proceeds of sale of his share under the development agreement. Will he be entitled to deduction under section 54 of the Act?
- 1.6 If Mr. A chooses to sell certain flats allotted to him as his share while the project is under construction, will the provisions of the proviso to section 55(2A) get attracted? If the answer is in the negative, does it mean that Mr. will be liable to capital gains tax only in the year of completion certificate and not earlier? Also, if taxation is under section 45(5A), will it mean that the tax would be payable on the stamp duty value even if the actual sale price of the flat is higher than the said value? Or does this provision call for bifurcation of gains into two elements: (i) on the transfer of the development rights; and (ii) on sale of the constructed flat coming to the share of Mr. A?

- 1.7 Is the development agreement liable to GST? If yes, at what stage and on what value?
- 1.8 Who all are liable to GST amongst the following parties:
- a. The Company;
 - b. Mr. A;
 - c. The Society;
 - d. The Members;
 - e. The Developer?
- 1.9 When the concerned parties sell the flats under construction, will GST once again kick in? If yes, will they be entitled to set off of GST paid on the development agreement, if any?
- 1.10 When Mr. A sells his portion of the constructed area before completion, can it be said that such sale is not “in the course of his business” and therefore, the said transaction is not liable to GST?
- 1.11 Is there any capital gains liability in the hands of the Society? If so, whether provisions of section 50C get attracted?
- 1.12 Is there any tax exposure in the hands of the members on:
- a. The additional carpet area that each one is likely to get;
 - b. The cash compensation for undergoing hardship?
- 1.13 Is there any obligation on the part of the Developer to deduct tax at source on:
- a. The amounts paid to the Company;
 - b. The amounts paid to Mr. A;
 - c. The amounts paid to the Society;
 - d. The amounts paid to the Members;
 - e. The value of the flats allotted to all the parties concerned?
- If yes, under which provision of the Act?

- 1.14 Is the Developer required to account for acquisition of the rights under the Development Agreement in its books of accounts immediately upon signing of the Agreement? If yes, at what value?
- 1.15 Is A Pvt. Ltd. required to pass any entries in its books of account upon entering into the development agreement? Or will it be required to pass entries only as and when the flats are allotted to it by the Developer? How would the Company account for the flats that it would sell during the construction period?

2. Real Estate and Construction Activities

Situation - 1

D & Co. is the owner of a plot of land. It approaches Z Ltd., a developer to construct a residential complex. Both agree to enter into a development rights agreement wherein D & Co. provides development rights to Z Ltd. for constructing the property and in return Z Ltd. agrees to allot specified constructed area to D & Co. The said agreement is entered into by them on 31st July 2017 wherein it is agreed that out of the 10 floors of the constructed building, any 3 floors would be allotted to D& Co., which would be subsequently identified. Upon completion of the RCC work, the parties entered into a supplementary agreement on 1 May 2018 for allotting 7th, 8th and 9th floors to D & Co. On 30 September 2018, Z Ltd. gave the possession of the constructed area to D & Co.

D & Co. seeks advice on:

- 2.1 Recording the above transaction in the books of accounts of land owner, D & Co. and the developer, Z Ltd.?
- 2.2 What would the point of recognition of the revenue / point of taxation of the transaction of grant of development rights under the Income Tax and GST laws?

2.3 What would be the implication of transferring the constructed property by the developer to land owner, D & Co.?

2.4 Further, if the above transaction is effected by creating a Limited Liability partnership to route their activities through the new entity, what would be the implication of the transaction in the books of D & Co. and Z Ltd? In this scenario, each of the parties will be partner in the LLP and bring in their respective resources as their capital share in the LLP. The net profit earned from the sale of flats will shared amongst them in their profit sharing ratio. The parties want to know the treatment and implications under the Income Tax and GST Laws.

Situation - 2

E & Co is a developer who is constructing a thirty storey residential building with 120 flats and podium parking. The construction of the building is completed upto the 15th slab as on 31st March 2018. The cost incurred on the project upto 31st March 2018 is 100 crores.

Out of the 120 flats available for sale, 75 flats have been sold as on 31st March 2018. The milestone for invoicing the customers is as follows:

Milestone	Invoicing (% of agreement value)
On booking of flat	5%
Commencement of plinth work	15%
Commencement of 5 th Slab	10%
Commencement of 10 th Slab	20%
Commencement of 20 th Slab	20%
Commencement of 30 th Slab	10%
Completion of plumbing and flooring	10%
Fit-out stage	5%
Possession	5%

With respect to the 75 flats, XYZ Ltd. has invoiced up to 10th slab amounting to Rs. 112.5 crores upto 31st March 2018.

Given the above, E & Co. wants to understand about the following –

- 2.5 The revenue to be recognized in the books of account in terms of the prevailing Accounting Standards for the year ending 31 March 2018
- 2.6 The revenue to be disclosed for the purpose of Income Tax in terms of the Income Tax Act, 1961 in the Tax Audit Report to be filed for Assessment Year 2018-19.
- 2.7 The turnover to be reported in the GST Returns in terms of the GST laws for the year ended 31 March 2018.
- 2.8 The method of reconciliation (as required under GSTR-9C) between the revenue recorded in the books of account and as reported in the GST Returns.

Situation - 3

In continuation of Situation – 2 above, E & Co. desires to be advised about the accounting and tax treatment in the following situations:

- 2.9 Reversal of Input tax credit on inventory which has remained unsold on the date of receipt of Completion Certificate
- 2.10 Cancellation of flats booked by the purchasers, when the flat cancellation takes place:
 - (a) Without refund of GST, on account of the cancellation taking place after 30th September of the succeeding financial year;
 - (b) Cancellation after receipt of Completion Certificate, which is sold thereafter without the liability for payment of GST.

3. Issues arising under Section 145A of the Income-tax Act:

3.1. Under clause (i), valuation of inventory shall be lower of actual cost or net realizable value computed in accordance with ICDS notified u/s. 145. ICDS II deals with valuation of inventories. It excludes from its scope, inter alia, the following:

- a. WIP arising under ‘construction contract’ dealt with by ICDS III; and
- b. WIP dealt with by other ICDS.

There is no specific ICDS applicable to inventories of the real estate business. Under the circumstances, how should the inventories of real estate business be valued for the purposes of the Income-tax Act?

3.2. What is the actual cost of inventories received: (a) as free sample basis from a vendor; (b) on free basis under a scheme floated by the vendor.

3.3. Under clause (ii), valuation of the purchase and sale of goods or services and of inventory is required to be adjusted to include the amount of tax, duty, cess or fee etc. Issues arising under this clause are:

- a. Does this clause apply to purchase, sale and inventory of real estate?
- b. Does the word “goods” in this clause cover items like stationery or other consumables which are debited to the profit and loss account but do not enter inventory valuation? Similarly, does the word “services” include expenses like travelling, professional services etc. which are debited to the profit and loss account and which are not relevant for valuation of inventories? Answer these questions under three distinct assumptions:
 - a. Input tax credit is available for such goods and services;
 - b. It is not available; and
 - c. GST is paid under reverse charge mechanism.

c. For professionals following cash method of accounting, compute the adjustment under section 145A(ii) given the following facts:

I. Invoices raised during the year (excluding GST)	:300
II. GST charged in the invoices on above	: 30
III. Gross receipts from profession (excluding GST)	:250

IV.	GST charged in the invoices on above	: 25
V.	GST not paid by the clients from IV above	: 5
VI.	Expenses incurred in cash on which GST is charged	:150
VII.	GST on VI above	: 15
VIII.	Expenses incurred in cash on which GST is payable under Reverse charge mechanism	: 30
IX.	GST payable on VIII above	: 3
X.	Expenses paid to unregistered dealers	: 20
XI.	GST on X above	: 2
XII.	Expenses payable at the end of the year(net of GST)	: 20
XIII.	GST on XII above	: 2
XIV.	GST actually paid in cash during the Financial Year	: 12

d. Will the calculations be different if the assessee in the above illustration follows mercantile system of accounting?

3.4. Explain the difference in valuation of securities held as stock-in-trade under: (a) AS; (b) IndAS; and (c) section 145A.

3.5. For a trader in securities holding units of mutual funds as his stock-in-trade, what should be the method of valuation for: (a) Accounting purposes, whether IndAS applies or not; and (b) Tax purposes – under normal provisions and under MAT.

4. Scope of the Term “Turnover”

GST Law: The GST law requires a person whose ‘Aggregate Turnover’ exceeds Rs.20 lakhs to obtain registration. A registered person is also required to file his return declaring the total turnover under the GST law, reverse Input Tax Credit attributable to the turnover of exempted supplies as well as distribution of input tax credit on the basis of the turnover. ‘Aggregate Turnover’ is also relevant for the purpose of availing composition under section 10 of the Central Goods and Services Tax law as well as for determining the requirement for audit by Chartered Accountant or a Cost Accountant under provisions of Section 35(5) of the CGST law.

B & Co. desires to be advised whether the following transactions shall form part of the turnover for the purposes under the Income Tax Act, Companies Act as well as the GST law.

Sr. No.	Particulars
1.	Sale of Capital Assets including Land and Building
2.	Recovery for bus facilities from employees
3.	Sale of Shares and Mutual Funds Units (Investments)
4.	Dividend Income
5.	Stock transfer of goods to branches and depots (liable to GST)
6.	Cross charge of Head Office expenses to branches and depots (liable to GST)
7.	Goods handed over to Consignment Sales Agents for further sale (liable to GST)

Accounting

For applicability of CARO and ICFR, what are the items which will be considered as part of turnover.

Income-tax law:

1. For the purposes of Section 44AB of the Income-tax Act, 1961 as well as for the purposes of Section 44AD thereof, which of these items would be included or excluded as the case may be? **Provision for Inventories**

5. Valuation of Inventories

C & Co. is engaged in the business of manufacture of engineering components. It purchases large volume of raw materials on its factory in Himachal Pradesh. In the books of account for the year ended 31st March, 2018, C & Co. has recorded the following entries.

- (i) Write off and scrapping of inventory of raw materials and consumables – original cost Rs.35 lakhs

- (ii) Write off and scrapping of stock of finished goods – manufacturing cost Rs. 80 lakhs
- (iii) Provision for write off of inventory of raw materials – 3% total inventory (C & Co. has not identified any specific units or pieces of inventory for this purpose).
- (iv) C & Co. is identified certain finished goods manufactured in 2012 which were lying unsold - C & Co. has made a provision of 50% of the sale price of these goods.
- (v) C & Co. is identified various units and lots of raw materials purchased in 2015 which were not used in manufacturing process upto 31 March, 2018 - On the basis of identification, C & Co. has made provision in its books of account as follows.
 - a) 100% write off, of inventory and transfer of the inventory to scrapyard – Rs. 25 lakhs
 - b) 95% provision of the cost of inventory – The goods have been left in the stores and not scrapped – Rs.30 lakhs.
 - c) 50% provision for inventory – The goods are lying in stores and not scrapped – Rs.10 lakhs.

Please analyze the impact thereof from a GST, Accounting and Income-tax perspective.

6. Capital Assets used for Taxable as well as Exempt business / transactions

A & Co. is engaged in the business of manufacture of goods at their factories in Tamil Nadu, Gujarat and Uttar Pradesh. Some of the manufactured goods are liable to tax under the GST law (taxable goods) whereas others are exempt from payment of GST (exempted goods). Each of the factories manufacture both taxable as well as exempt goods. A & Co. is faced with the following situations in relation to capital assets used in the manufacture.

- a. Purchase of New Machine in Tamil Nadu:

A & Co. purchased and installed a new machine at its factory in Tamil Nadu in the month of January, 2018. In the first month, it claimed full Input Tax Credit ('ITC') of the GST paid on the purchases of the machine. Thereafter, A & Co. has been reversing pro-rata ITC as required by Rule 43 of the CGST Rules. The details of the ITC availed and reversed are as follows.

Sr. No.	Month	ITC availed	ITC Reversed	Interest Paid	Ratio of Taxable : Exempt Goods
1	January'18	60,00,000	30,000	-	70 : 30
2	February'18	-	20,000	300	80 : 20
3	March'18	-	45,000	1,350	55 : 45
4	April'18	-	30,000	1,350	60 : 40
5	May'18	-	25,000	1,500	75 : 25
6	June'18	-	35,000	2,625	65 : 35
7	July'18	-	10,000	900	90 : 10
8	August'18	-	15,000	1,575	85 : 15
9	September'18	-	20,000	2,400	80 : 20
10	September'18 (Annual Top-up)	-	(20000)	-	75 : 25 (Pr. Yr. Annual Ratio)
11	October'18	-	50,000	6,750	50 : 50
12	November'18	-	30,000	4,500	70 : 30
13	December'18	-	40,000	6,600	60 : 40
	Total	60,00,000	3,50,000	29,850	

A & Co. desires to be advised on the following.

- (1) Whether the reversal of ITC for every month should be accounted as a Revenue Expenditure or Capital Expenditure?
- (2) Whether interest paid on the reversal of ITC for every month should be accounted as a Revenue Expenditure or Capital Expenditure?

- (3) What should be the treatment of the re-claim of ITC on account of annualized computation made in September 2018?
- (4) Will the treatment be different if the machinery is put to use only in April 2018?
- (5) Explanation 9 to section 43(1) of the Income Tax Act requires that the actual cost of the fixed asset shall be net of the amount of excise duty or additional duty leviable under Customs Tariff Act in respect of which claim of credit has been made and allowed under the Central Excise Rules, 1944. This Explanation does not include input tax credit claimed and allowed under the GST law. Does it, therefore, mean that the amount to be capitalized to Fixed Asset can be the gross amount?

b. Machine installed at Gujarat factory:

A & Co. had purchased a new machine at its Gujarat factory in the month of August, 2017. The cost of the machine was Rs.50 lakhs and the GST paid thereon was Rs.6 lakhs. A & Co. did not avail ITC on the machine and capitalized the same in its books of account.

The machine was transferred from its Gujarat factory to the Uttar Pradesh factory in the month of May, 2018. At the time of such transfer A & Co. had to pay GST of Rs.5 lakhs on the Open Market Value of the machine.

Considering the operations of the Uttar Pradesh factory, A & Co. has the option to either:

- (i) not claim the ITC of the GST paid on the transfer of the machine from Gujarat; or
- (ii) claim the credit and reverse the same on a monthly basis in accordance with Rule 43.

A & Co. has the following questions:

- (i) If A & Co. decides not to claim the ITC, what should be the treatment of the GST of Rs.5 lakhs paid at the time of transfer of the machine from Gujarat to Uttar Pradesh?

- (ii) If A & Co., opts to claim the ITC at Uttar Pradesh, what should be the treatment of the monthly reversals of ITC and interest thereon?

7. Sale and Acquisition of Businesses:

XYZ Food Products P. Ltd. (or “XYZ”) is a company established in the year 2000, engaged in the business of manufacturing and marketing of food products like chocolates, confectioneries, etc. in the state of Maharashtra. In the year 2014, it had undertaken certain expansion of the manufacturing capacity for which it was entitled to VAT incentives under the scheme of the State Government.

From inception, the Company manufactured various products of US-Co. Inc., a foreign multinational, under a license agreement for use of formula and brands. Under its license agreement, the US-Co. Inc. was prevented from commencing similar business, either directly or through a subsidiary or a joint venture, in the Western India sector. However, in breach of the said terms, in May 2017, US-Co. Inc. set up a subsidiary in Gujarat (Gujarat-Sub) for carrying on the manufacturing and marketing of the same products. XYZ raised a claim for damages for breach of contract and was awarded a compensation of INR 100 crores by arbitrator in June 2018. The said award has been accepted by both the parties and has, thus, become final.

In July 2018, the license agreement came to an end and it was not renewed. As a result, since then, the business has come to a standstill. The entire workforce in the manufacturing unit has been retrenched by payment of adequate compensation. While some members of the marketing team are also given a severance package, a small part of the marketing team and the marketing network is being partly used for distribution of some other third party product manufacturers. The owners are trying to dispose of the businesses and have got good proposals from two different parties; one willing to buy the manufacturing unit and the other (the Gujarat-Sub) wanting to buy the marketing workforce and the marketing network.

While the Gujarat-Sub is desirous of buying the marketing division on a slump sale basis, the buyer of the manufacturing division would like the present owners to have a stake in their company and is hence proposing a demerger. If the slump sale goes through, the

business of marketing the third party products will not be taken over. The negotiations are on but the deals are not likely to be completed by March 31, 2019. Following questions have been raised for the opinion of the participants of the CTC RRC:

- 7.1. How would XYZ account for the compensation awarded to it? Is such compensation liable to GST? What would be the income-tax implication thereof?
- 7.2. Whether the retrenchment compensation and the severance pay paid to the workers of the manufacturing unit and the marketing team respectively are allowable expenditure in computing the taxable income of XYZ for Assessment Year 2019-20?
- 7.3. Whether the VAT incentives that are already claimed till June 2017, but not yet released be available to XYZ or to the buyer or to the resulting company or to none of them?
- 7.4. Whether in respect of the business carried on after introduction of GST, would the incentives under the VAT regime be continued under the GST regime? If yes, what is the procedure for the same? Will the buyer of the business / resulting company be entitled to claim the same since no claim is raised till date.
- 7.5. Whether in respect of the manufacturing to be carried out in the expanded facility after the demerger, will the GST incentive be available for the residual amount / period? If yes, who will be eligible – XYZ or the resulting company?
- 7.6. It is commercially agreed that if the incentive referred in 3.5 above is available to the resulting company, it will be shared equally with XYZ if and when it is actually received. How would such incentive be accounted by XYZ and by the resulting company? What would be the income tax implication in the hands of XYZ and on the resulting company?
- 7.7. Will the transaction of slump sale of the marketing business be liable for GST? If so, whether the buyer will be entitled to claim input credit against the same?

7.8. Assuming that the resulting company in the demerger is a company to which the provisions of IndAS applies, how would it account for the assets and liabilities received on demerger, at book values of XYZ or at the fair values? If it is obliged to account at fair values under IndAS, will the demerger remain tax neutral? Is there a way in which the requirements of IndAS as well as the requirements of the Income-tax Act, both can be balanced?

8. Financial Services Transactions

Borrowing:

Facts of the case:

ABC Ltd is NBFC registered with RBI. It has borrowed Rs. INR 100,000 by way of term loan from XYZ Bank Ltd on 1st April 2018. Loan is repayable in 5 yearly equal installments and carries interest rate of 9% p.a. In case of default by the company an additional 2% penal interest is applicable. The bank has charged processing fees of 2% of the loan amount plus GST@18%, and the fee is payable upfront.

Questions:

1. What will be the amount of the borrowing initially accounted by the ABC Ltd.?
2. What is the input credit that ABC Ltd. will be able to claim under G.S.T.?
In case NBFC is a leasing company what would be the option available for claiming input credit?
3. What is borrowing cost of ABC Ltd for the 5 year period, on the basis that interest and principal is paid on time?
4. In case, the company has defaulted in payment of instalments due on 1st April 2021, what is the treatment of penal interest applicable? Is penal interest liable to GST?
5. What is the amount of expenses the company will be able to claim in calculation of Income tax for each of the 5 years?

Preference Shares

Facts of the case:

ABC Ltd is NBFC registered with RBI. It has issued 10,000 cumulative 5% Preference shares of face value Rs. 100 each at premium of Rs. 25 each on 1st April 2016. The shares are redeemable at premium of Rs.50 each after 5 years. The company has regularly declared dividends on equity shares in the past 5 years. Ind AS is applicable to the Company from April 01, 2018. DDT is assumed at 20%.

Questions:

1. On the date of transition, what will be the impact on the reserves?
2. Will borrowing cost include DDT paid/ payable?
3. Assuming, if the share are non-cumulative preference shares, what will be the borrowing cost?
4. What will be the treatment in Income Tax?

Loans and Expected Credit Loss (ECL)

Facts of the case

Finance Limited is an NBFC registered with RBI. It has the given following Loans and advances :-

1. Wholesale loans amounting to Rs. 10 crores each given to 10 parties.
2. Retail loans amounting to Rs. 2 lacs each given to 100 parties.

Staging of the portfolio

Wholesale	Retail
2 parties > 30days past due	20 parties >30 days past due
1 party > 90 days past due	10 parties >90 days past due

Questions:

1. What will be ECL provision that would be required?
2. What is the difference in provisioning under IGAAP and IND AS?
3. What will be the allowable deduction under Income Tax provision for loan provisioning?
4. In case Ind AS is not applicable to this Company and all loans are standard assets, what is the allowable deduction against the standard asset provision of Rs.40,80,000/-

Investment in Equity:

Facts of the case:

Company XYZ Ltd, have invested in the shares of company PQR Limited which is listed on the national stock exchange. The company bought 1,00,000 shares at Rs. 95 each on 10th June 18. At the year end i.e. on 31st March 2019, the price of the share is Rs. 98

The company has also invested in 10,000 units of a Mutual Fund on 10th June 18 at the NAV of the Rs.151. whose NAV as at 31st March 2019 is Rs. 149. These Mutual fund units are treated as Stock-in-trade.

Questions:

1. What should be the treatment under IND- AS for these Investments?
2. What should be the treatment for Mark to market?
3. What should be the treatment for Mark to market in case of units of mutual fund, if the NAV on 31st March 2019 is Rs.155?
4. What will be the Income tax liability on account of this?
