

### Very Short Answer Questions

1. What is law?

Law means a 'set of rules' which governs our behaviour and relating in a civilized society.

2. Why should one know law?

One should know the law to which he is subjected to because ignorance of law is no excuse.

3. Can a minor enter into a Contract?

- Section 11 of the Indian Contract Act expressly forbids a minor from entering a contract. Any contract entered by a minor is considered worthless by the law.
- However, in Raghavachariar vs. Srinivas, the Madras HC held that a minor can enforce a contract which is of some benefit and creates no obligations on him
- The Indian Apprenticeship Act provides for contracts for service which are binding on minors. Section 9 of the Act requires such contracts to be made by a guardian on behalf of a minor.

4. Who can enter into a Contract?

The parties to a contract must have capacity (legal ability) to make valid contract. The Indian contract Act specifies that every person is competent to contract provided he

- (i) is of the age of majority according to the Law which he is subject to, and
- (ii) who is of sound mind and
- (iii) is not disqualified from contracting by any law to which he is subject to, an alien enemy, foreign sovereigns and accredited representative of a foreign state, insolvents and convicts are not competent to contract.

5. Define Contract

As per the Indian Contract Act, 1872, a "contract" is an agreement enforceable by law. The agreements not enforceable by law are not contracts.

**Short Answer Questions**

1. Define Offer

**Offer (i.e. Proposal) [section 2(a)]**

When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other person either to such act or abstinence, he is said to make a proposal.

2. What do you mean by Agreement?

**Agreement 2(e)**

Every promise and set of promises forming consideration for each other is an agreement. In short, Agreement = Offer + Acceptance.

3. Define a Voidable Contract

**Voidable Contract 2(i)**

An agreement which is enforceable by law at the option of one or more parties but not at the option of the other or others is a voidable contract. This is the result of coercion, undue influence, fraud and misrepresentation

4. What do you mean by Revocation?

Revocation of offer is the withdrawal of an offer by the offeror so that it can no longer be accepted. Revocation takes effect as soon as it is known to the offeree. An offeror may revoke an offer before it has been accepted, but the revocation must be communicated to the offeree.

5. Who is a promisor, promisee?

Promisor Definition: The person who has become obliged through a promise (usually expressed in a contract) towards another.

Promisee, Obligor, Debtor. The opposite of a promisee; the promisor is the one making the promise: the person who makes a promise or a contractual commitment

## Long Answer Questions

1. Explain the essentials of a Valid Contract

### **1. Offer and acceptance:**

In a contract there must be at least two parties one of them making the offer and the other accepting it. There must thus be an offer by one party and its acceptance by the other. The offer when accepted becomes agreement.

### **2. Legal relationship:**

Parties to a contract must intend to constitute legal relationship. It arises when the parties know that if any one of them fails to fulfil his part of the promise, he would be liable for the failure of the contract.

### **3. Consensus-ad-idem:**

The parties to an agreement must have the mutual consent i.e. they must agree upon the same thing and in the same sense. This means that there must be consensus ad idem (i.e. meeting of minds).

### **4. Competency of parties:**

The parties to an agreement must be competent to contract. In other words, they must be capable of entering into a contract.

### **5. Free consent:**

Another essential of a valid contract is the consent of parties, which should be free. Under Sec. 13, "Two or more parties are said to consent, when they agree upon the same thing in the same sense." Under Sec. 14, the consent is said to be free, when it is not induced by any of the following:- (i) coercion, (ii) misrepresentation, (iii) fraud, (iv) undue influence, or (v) mistake.

### **6. Lawful consideration:**

Consideration is known as 'something in return'. It is also essential for the validity of a contract. A promise to do something or to give something without anything in return would not be enforceable at law and, therefore, would not be valid.

### **7. Lawful objects:**

According to Sec. 10, an agreement may become a valid-contract only, if it is for a lawful consideration and lawful object

Any agreement, if it is illegal, immoral, or against the public policy, cannot become a valid contract.

## 8. Agreement not expressly declared void:

An agreement to become a contract should not be an agreement which has been expressly declared void by any law in the country, as it would not be enforceable at law.

## 9. Certainty and possibility of performance:

Agreements to form valid contracts must be certain, possible and they should not be uncertain, vague or impossible. An agreement to do something impossible is void under Sec. 56.

## 10. Legal formalities:

The agreement may be oral or in writing. When the agreement is in writing it must comply with all legal formalities as to attestation, registration. If the agreement does not comply with the necessary legal formalities, it cannot be enforced by law.

### 2. Difference between Contract and Agreement.

S.NO	BASIS	CONTRACT	AGREEMENT
1	Definition	A contract is an agreement enforceable by law.	An Agreement is every promise or every set of promises forming consideration
2	Enforceability	Every contract is enforceable	Every promise is not enforceable
3	Inter relationship	A contract includes an agreement.	An agreement does not include a Contract
4	Validity	Only legal agreements are called contracts.	An agreement may be both legal and illegal.
5	Legal Obligation	Every contract contains a legal obligation.	It is not necessary for every agreement to have legal obligation

### 3. Explain the classification of Contract on the basis of the Validity.

#### 1. Void contracts:

A **void contract** is a contract which is not enforceable by law. As a matter of fact, a void contract is not at all a contract, as it is without any legal effect.

The term void contract is defined in Sec2 (j) of the Indian Contract Act, which reads as under: "A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable".

Thus, when a valid and enforceable contract subsequently becomes legally unenforceable due to some reasons which may be:-

- (i) Due to some emergent impossibility or the operation of law, contract may become void (Sec 56);
- (ii) Voidable contract becomes void when the concerned party uses his right to repudiate it; and
- (iii) A contingent contracts becomes void when the possibility of happening of the concerned event is over.

### **2. Voidable contracts:**

Under Sec 2 (i), "All agreements which are enforceable at the option of any one of the parties, and other party has no such option, are known as voidable contracts."

It may also be said that a voidable contract is an agreement that is binding and enforceable, but because of the lack of one or more of the essentials of a valid contract, it may be repudiated.

### **3. Illegal agreement:**

An agreement which goes beyond the rule of basic public policy and is criminal in nature or immoral

It is not only void as between the immediate parties but it is also paints the collateral transactions with illegality.

4. Explain the classification of Contract on the basis of the Formation.

### **1. Express contract:**

A contract in which the terms are stated by parties in words, written or spoken.

Sec 9 of the Indian Contract Act contains this provision which reads as under: "So far as the proposal or acceptance of any promise is made in words, the promise is said to be express".

Thus, a promise made in words is called an express promise. And the express promises result in express contracts.

### **2. Implied contract:**

A contract in which the terms are inferred from the circumstances of the case or conduct of the parties.

Thus, an implied contract is that which is not made in words. Such contracts came into existence on account of act or conduct of the parties. In a continuing course of dealing, the acts or conduct of the parties may give rise to implied contracts.

### **3. Quasi contract or constructive contract:**

It is an obligation created by law regardless of agreement between the parties. As a matter of fact, quasi-contracts are not contracts as there is no intention of the parties to enter into a contract.

In fact, it is an obligation which the law creates in the absence of any agreement. A quasi-contract is based upon the equitable principle that a person shall not be allowed to enrich himself at the expense of another.

5. Explain the classification of Contract on the basis of the Performance.

#### **1. Unilateral contract:**

A contract in which one party has performed his obligation while the other party has yet to perform his obligation

Thus, a unilateral contract is a one-sided contract in which only one party has to perform his obligation. In such contracts, promise on one side is exchanged for an act on the other side.

#### **2. Bilateral contract:**

A contract in which both the parties have yet to perform their obligations. A bilateral contract is a two-sided contract in which both the parties have to perform their respective obligations, i.e. at the time of formation of a contract the obligations of both the parties are outstanding.

In such contracts, promise on one side is exchanged for a promise on the other. The bilateral contracts are also known as contracts with executor consideration.

#### **3. Executory contract:**

A contract in which the promises of both the parties have yet to be performed. Thus, executory contract is that where under the terms of a contract something remains to be done by the parties.

In other words, where one or both the parties to the contract have still to perform their obligations in future, the contract is termed as executory contract.

#### **4. Executed Contract:**

A contract in which both the parties performed their respective promises. When a contract has been completely performed, it is termed as executed contract, i.e. it is a contract where, under the terms of a contract, nothing remains to be done by either party. A contract may be executed at once i.e. at the time when it is made.

For example, in case of cash sales, the contract is executed at once. It may become executed in some future date when the terms of the contract are carried out

6. Explain the classification of Contract on the basis of the enforceability

### **1. Valid contract:**

A valid contract is one which complies with all the elements of a valid contract as provided under Section 10. A valid contract is an agreement which is binding and enforceable at law.

### **2. Unenforceable contracts:**

The unenforceable contracts are those which cannot be enforced in a Court of Law because of some technical defects. In certain cases, there are special provisions of law which require some formalities to be fulfilled, e.g. there are special provisions which provide that a contract must be in writing, or it must be registered, or it must be properly stamped or it must be attested etc.

If such formalities are not properly observed, the contract cannot be enforced in a Court of Law. Otherwise, such a contract is perfectly valid and has all the requirements of a valid contract.

Some of such contracts can be enforced if the technical defect is removed e.g. where a document requires to be stamped and it is understamped (i.e. the stamp affixed is of less value), the contract as such is unenforceable. But if the required stamp is now affixed, the document becomes enforceable.

**Chapter 30 Performance of Contract**

**II Very Short Answer Questions**

**1. State the ways of Performing a Contract.**

- i. **Actual Performance**
- ii. **Attempted Performance**

**2. Who is a Legal Representative?**

**Legal Representative** – legal representative can demand Exception performance. Contrary intention appears from the contract. Contract is of a personal nature.

**3. Who is an agent?**

According to Para 2 of Section 40, the promisor may employ a competent person such as agent to perform the promise, if the contract is not formed on personal condition.

**4. Define Reciprocal Promise.**

Promises which form consideration or part of consideration for each other are called 'reciprocal promise'.

**5. By whom must contracts be performed?**

- i) **Promisor himself**
- ii) **Agent**
- iii) **Legal representative**
- iv) **Third Person**
- v) **Joint Promisors**

**III Short Answer Questions**

**1. What is a Valid tender?**

**A tender, to be valid, must satisfy the following essential requirements**

- i) It must be unconditional
- ii) It must be for the whole obligation and must not be in instalments, if the contract requires in full.
- iii) It must be by a person who is in a position and willing to perform the promise.
- iv) It must be at the proper time and place.



- v) It must be in proper form.
- vi) It must be made to a proper person i.e. to the promisee or his authorized agent.
- vii) In case of the tender of goods the promisee must be given a reasonable opportunity to inspect the goods.
- viii) It may be made to one of the several joint promisees.

## 2. Who can execute and Perform a Contract?

- i) **Promisor himself**
- ii) **Agent**
- iii) **Representations**
- iv) **Third Person**
- v) **Joint Promisors**

## 3. Who can demand performance?

1. **Promisee** – only a promisee can demand performance and not a stranger demand performance of the contract.
2. **Legal Representative** – legal representative can demand Exception performance. Contrary intention appears from the contract. Contract is of a personal nature.
3. **Third party** – Exception to “stranger to a contract”

## 3. Write a note on the ~~benefits~~ of Reciprocal Promise.

Promises which form consideration or part of consideration for each other are called ‘reciprocal promise’.

**Example:**

All cash sales are examples of simultaneous or concurrent promises, as delivery of goods and payment of price take place simultaneously.

## 4. Who is a Joint Promisors?

Section.42 of Indian Contract Act lays down that “When two or more persons have made a joint promise, then unless a contrary intention appears in the contract, all such persons, during their joint lives and after the death of the last survivor, representatives of all, jointly must fulfil the promise”

## IV Long Answer Questions

### 1. Explain rules relating to place of performance of promise

When a promise is to be performed on a certain day, the promisor may undertake to perform it without application by the promisee. Under Sec 47, it has been provided that “In such a case the promisor may perform the promise at any time during the usual hours of business on such day and at the place at which the promise ought to be performed.”

#### Example:

X promises to deliver 10 scooters at Y's go down on April 1. On that day X brings the scooters but after 8.00 p.m. The delivery is not taken as the go down was closed. Here it was held that X has not performed his promise.

### 2. Elucidate the provision regarding time as factor in performance.

Sec. 46 states that “Whereby the contract, a promisor is to perform his promise without application by the promisee and no time for performance is specified, the engagement must be performed within a reasonable time.”

What is a “**reasonable time**?” is a question of fact. It depends upon the circumstances of the case, the usage of trade or the intention of the parties at the time of entering into the contract.

#### Example:

Supply of order for books by a bookseller to the publisher given in July should be performed within 4-5 days, it being the time for the demand of books.

If such order is given in May, it may take 20-30 days or so, as the season for books will start in July.

### 3. How do you think appropriation of payments takes place?

The Rules relating to the appropriation of payments made by a debtor, who owes a number of distinct debts to his creditor are contained in Sections 59 to 61 of the Indian Contract Act, 1872.

#### 1. Where the debtor intimates (Sec. 59):

(i) Appropriation of payment is a right primarily of the **debtor** and for his benefit. If the debtor expressly intimates at the time of actual payment that the payment must be applied towards the discharge of a particular debt, the creditor must do so.

(ii) If there is no express intimation by the debtor, the Law will look to the circumstances attending on the payment for appropriation. There is an established maxim that when

money is paid, it is to be applied according to the express will of the payer, not to the receiver. [Craft Vs. Lumlay]

## **2. When the debtor does not intimate and the circumstances are not indicative (Sec. 60):**

(i) When the debtor does not expressly intimate or where the circumstances attending on the payment do not indicate any intention, the creditor may apply his own discretion to any lawful debt actually due and payable to him from the debtor.

(ii) The creditor may also, until he has declared appropriation to the debtor, alter the appropriation.[Simson Vs. Ingham]

(iii) He cannot, however, apply the payment to a disputed and unlawful debt, but he may apply it to a debt, which is barred by the law of limitation.

## **3. Part-payment is applied for the interest first and for the principal afterwards:**

Regarding part-payment, the general principle, subject to any contract to the contrary, is that the payment should first be applied to the interest and after the interest is fully paid off, to the principal.[Rubia Devi Vs. Raghunath Prasad]

## **4. Appropriation in order of receipts and payments:**

The Rule of Clayton's Law is applicable where the parties have a current account. In such case appropriation impliedly takes place in the order in which receipts and payments take place and are carried into the account.

## **5. When the debtor does not intimate and creditor fails to appropriate (Sec. 61):**

Where the debtor does not expressly intimate and where the creditor fails to make any appropriation, the payment shall be applied in discharge of the debt in chronological order, i.e., in order of time

If the debts are of equal standing, the payment shall be applied in discharge of each proportionately.

**Chapter 31 Discharge and Breach of a Contract**

**Very Short Answer Questions**

**1. What are the kinds of consent?**

- a. express
- b. implied

**2. What are the types of Impossibility of Performance?**

- i) Impossibility existing at the time of agreement.
- ii) Impossibility arising subsequent to the formation of contract.

**3. What is Quantum meruit?**

A reasonable sum of money to be paid for services rendered or work done when the amount due is not stipulated in a legally enforceable contract.

**Short Answer Questions**

**1. What are the different modes of discharged by implied consent?**

(a) Novation, (b) Alteration, (c) Recession, (d) Remission, (e) Accord and Satisfaction, (f) Waiver and (g) Merger

**2. Define discharge by Performance.**

Performance implies carrying out the obligation of the contract. Performance must be completed according to the real intentions of the agreement. Performance must be done according to time and manner prescribed.

Performance of contract may be of two types namely

- (i) Actual performance
- (ii) Attempted performance

**3. What are reasons for impossibility arising after the formation of contract?**

- a) By some event beyond the control of the parties or
- b) By some act either of the promisor or of the promisee.

**4. What are the various rules regarding damages?**

Sec. 73 to 75 of the Act deal with the rules regarding the loss or damage arisen from a breach of contract. The rules state that:-

1. Damages are paid as compensation and restitution and not as punishment. Infact through damages efforts are made to put the party back into the same position as if the contract had been performed. [Hadley Vs. Baxendale]

2. Compensation is paid for proximate losses as may naturally, fairly and reasonably arise in the usual course of events.
3. No compensation can be paid for any remote or indirect losses as provided under Sec. 73.
4. Compensation can be paid for any loss or damage, which the party knew when he entered into the contract.
5. Subsequent circumstances causing increase or decrease in the quantum of damages are not taken into consideration.
6. Claim for damages must be fair and reasonable.

### IV Long Answer Questions

#### 1. Explain the ways of discharge of Contract?

When the rights and obligations arising out of a contract are extinguished, the contract is said to be discharged or terminated. A contract may be discharged in any of the following ways:

1. By performance-actual or attempted.
2. By mutual consent or agreement.
3. By subsequent or supervening impossibility or illegality.
4. By lapse of time.
5. By operation of law.
6. By breach of contract.

#### 1. Discharge by Performance

Performance of a contract is the principal and most usual mode of discharge of a contract. Performance may be: (1) Actual performance; or (2) Attempted performance or Tender.

#### 2. Discharge by Mutual Consent or Agreement:

Since a contract is created by means of an agreement, it may also be discharged by another agreement between the same parties. Sections 62 and 63 deal with this subject and provide for the following methods of discharging a contract by mutual agreement:

(a) Novation, (b) Alteration, (c) Recession, (d) Remission, (e) Accord and Satisfaction, (f) Waiver and (g) Merger

### **3. Discharge by Subsequent or Supervening Impossibility or Illegality:**

#### **Impossibility at the time of contract:**

There is no question of discharge of a contract which is entered into to perform something that is obviously impossible, e.g., an agreement to discover treasure by magic, because, in such a case there is no contract to terminate, it being an agreement void ab-initio by virtue of Section 56, Para 1, which provides: "an agreement to do an act impossible in itself is void."

#### **Subsequent impossibility:**

In fact it is this case, where the impossibility supervenes after the contract has been made, which is material to our study of discharge of contracts. In this connection, Section 56, Para 2, declares: "A contract to do an act which, after the contract is made, becomes impossible, or, by reason of some event which the promisor could not prevent, unlawful, becomes void when the act becomes impossible or unlawful".

In order that the Section would apply the following conditions must be fulfilled: (1) that the act should have become impossible; (2) that impossibility should be by reason of some event which the promisor could not prevent; and (3) that the impossibility should not be self-induced by the promisor or due to his negligence.

### **4. Discharge by Lapse of Time:**

The Limitation Act lays down that in case of breach of a contract legal action should be taken within a specified period, called the period of limitation, otherwise the promisee is debarred from instituting a suit in a court of law and the contract stands discharged.

### **5. Discharge by Operation of Law:**

A contract terminates by operation of law in the following cases:

#### **(a) Death:**

Where the contract is of a personal nature, the death of the promisor discharges the contract. In other contracts the rights and liabilities of the deceased person pass on to the legal representatives of the dead man.

#### **(b) Insolvency:**

A contract is discharged by the insolvency of one of the parties to it when an Insolvency Court passes an "order of discharge" exonerating the insolvent from liabilities on debts incurred prior to his adjudication.

**(c) Merger:**

Where an inferior right contract merges into a superior right contract, the former stands discharged automatically.

**(d) Unauthorised material alteration:**

A material alteration made in a written document or contract by one party without the consent of the other, will make the whole contract void.

**6. Discharge by Breach of Contract:**

Breach of contract by a party thereto is also a method of discharge of a contract, because “breach” also brings to an end the obligations created by a contract on the part of each of the parties.

Of course the aggrieved party, i.e., the party not at fault can sue for damages for breach of contract as per law; but the contract as such stands terminated.

Breach of contract may be of two kinds:

(1) Anticipatory breach; and (2) Actual breach

**2. Write about the various remedies for breach of contract**

Parties to a contract are obliged to perform their respective promises. But situation arises where one of the parties to a contract may break the contract by refusing to perform his promise. This is what is called [breach of contract](#). When one party commits breach of contract, soon the other party is entitled to the following remedies.

When one of the party commits a breach of the contract, the other party becomes entitled to any of the following reliefs:

1. Rescission of the contract.
2. Damages for the loss suffered.
3. Suit for the specific performance.
4. Suit upon quantum meruit.
5. Suit for injunction.

**1. Rescission of the Contract**

When one of the parties commits breach of contract, other party shall further treat the contract as void or rescinded. When the contract is rescinded, the affected party is automatically discharged from all the commitments under the contract.

Sec. 64 of the Act provides that the party who rescinds the voidable contract, shall if he has received any benefit there under from the other party, restore such benefit to the person from whom it was received. Further, the person who rightfully rescinds the contract is entitled to compensation for any damage he faced from non-fulfillment of contract.

## **2. Damages for the loss suffered**

The term “Damages” means monetary compensation payable by the defaulting party to the affected party for the loss suffered by him when contract was breached. Therefore, the aggrieved party may bring an action for damages against the party who is guilty of the breach of contract.

The party who is guilty of breach is liable to pay damages to the aggrieved party. The main purpose of awarding damages is to put the injured person in as good a position as he would have been if performance had been rendered as promised. Therefore, the aggrieved party can recover the actual damages and nothing more. Exemplary damages can be awarded only when the feelings of the injured party are considered.

## **3 Suit for the specific performance.**

Sometimes, the damages are not an adequate remedy for breach of the contract. In such cases, the Court may, at the suit of the party not in breach, direct the party in breach to carry out his promise as per the terms of the contract. This is known as specific performance of the contract.

Some of the cases where Court may direct specific performance are as follows:

1. When the act agreed to be done is such that compensation in money, for its non-performance could not afford adequate relief.
2. When there exists no standard for determining the actual damages caused due to the non-performance of the contract.

However, specific performance shall not be granted in the following cases:

1. Where the damages are an adequate relief,.
2. Where the contract is determinable in its nature.
3. Where the contract involves personal nature.
4. Where the Courts cannot supervise the carrying out of the contract.
5. Where the contract is not fair and just.



#### **4. Suit upon Quantum Meruit**

In literal sense, the expression “Quantum Meruit” means, “as much as earned “. In legal sense, it means payment in proportion to the work done. This principle provides for the payment of compensation under certain circumstances, to a person who has offered the goods or services to the other party under a contract, which under certain circumstance, could not be fully performed.

#### **5. Suit for Injunction**

The term “Injunction” may be defined as an order of the Court instructing a person to refrain from doing some act that has been the subject-matter of contract. Where a party has promised not to do something and he does it, and thereby commits a breach of contract, the aggrieved party may, seek the protection of the Court under certain circumstances and obtain an injunction.

#### **3. Discuss the different types of damages awarded to the injured party.**

##### **(i) Ordinary Damages:**

Compensation can be paid for actual loss. No one can be allowed to make profits from loss. Usually, the difference between the contract price and the market price on the date of breach is determined as compensation. Such compensation is known as ‘ordinary damages’.

Section 73 does not give any course of action unless and until damage is actually suffered. [Union of India vs. T.D.L. Patel, A.I.R. (1917), Delhi 120]

##### **(ii) Special Damages:**

Damages other than those arising from the breach of contract may be recovered, if such damages may reasonably be supposed to have been in the contemplation of both the parties as the probable result of the breach of contract. Such damages are known as special damages.

Such damages cannot be claimed as a matter of right. They can be claimed only if special circumstances which would result in a special loss in case of breach of contract, are brought to the notice of the other party. [Simpson Vs. London N. W. Rail Co.]

Further, the fact that damages are difficult to be assessed, does not prevent the injured party from recovering them. [Chaplin vs. Hicks (1911), 2 K.B. 786]

##### **(iii) Vindictive or Exemplary Damages:**

Damages are awarded by way of compensation for loss suffered and not by way of punishment. Hence, such damages have no place in the Law of Contract because they are punitive by nature.

However, there are two cases in which the court may award exemplary damages. These cases are:-

- (a) Breach of a promise to marry; and
- (b) Wrong dishonor of a cheque by a banker.

### **(iv) Nominal Damages:**

Where the injured party has not, in fact, suffered any loss by reason of the breach of contract, the damages recovered by him are nominal, i.e., very small. Such damages only acknowledge that the plaintiff has proved his case and won. [Brace Vs. Calder]

**Chapter 32 Direct Taxes**

**II. Very Short Answer Questions**

**1. What is Income tax?**

Income tax is a direct tax under which tax is calculated on the income, gains or profits earned by a person such as individuals and other artificial entities (a partnership firm, company, etc.)

**2. What is meant by previous year?**

Income earned during a particular financial year is assessed to tax in the immediately following financial year. The year of earning income is called 'Previous Year' and the year in which assessment of income is done is called 'Assessment Year'. The income tax return of previous year's income is filed in the relevant assessment year.

**3. Define the term person?**

The term 'person' includes the following

- (i) an individual,
- (ii) a Hindu Undivided Family (HUF),
- (iii) a company,
- (iv) a firm,
- (v) an Association Of Persons or a Body Of Individual, whether incorporated or not,
- (vi) a local authority, and
- (vii) every artificial juridical person e.g., an idol or deity.

**4. Define the term assessee?**

Assessee means a person by whom any tax or any other sum of money is payable under this Act. It includes every person in respect of whom any proceeding has been taken for the assessment of his income or assessment of fringe benefits.

**5. What is an assessment year?**

The term has been defined under section 2(9). The year in which tax is paid is called the assessment year. It normally consisting of a period of 12 months commencing on 1<sup>st</sup> April every year and ending on 31<sup>st</sup> March of the following year.

**Short Answer Questions**

**1. What is Gross Total Income?**

Gross Total Income is a cumulative income which is computed under the five heads of income, i.e. salary, house property, business or profession, capital gain and other sources. Gross total income is calculated after the clubbing provisions and making adjustments of set-off and carry forward of losses.

**2. List out the five heads of income.**

- Income from salary
- Income from house property
- Income from business or profession
- Capital gains
- Income from other sources

### 3. Write a note on Agricultural Income.

Any rent or revenue derived from land which is situated in India and is used for agriculture purposes. Agricultural income is fully exempted from tax u/s 10(1) and as such does not form part of total income.

### 4. What do you mean by Total Income.

Total Income is the income on which tax liability is determined. It is necessary to compute total income to ascertain tax liability. Section 80C to 80U provides certain deductions which can be claimed from Gross Total Income (GTI). After claiming these deductions from GTI, the income remaining is called as Total Income.

### 5. Write short notes on:

#### 1. Direct Tax.

#### 2. Indirect Tax

**Direct Taxes**, as the name suggests, are taxes that are directly paid to the government by the taxpayer. It is a tax applied on individuals and organizations directly by the government e.g. income tax, corporation tax, wealth tax etc.

**Indirect Taxes** are applied on the manufacture or sale of goods and services. These are initially paid to the government by an intermediary, who then adds the amount of the tax paid to the value of the goods / services and passes on the total amount to the end user.

Examples of these are sales tax, service tax, excise duty etc.

### IV. Long Answer Questions

#### 1. Elucidate any five features of Income Tax.

##### **i. Levied as Per the Constitution**

Income tax is levied in India by virtue of entry No. 82 of list I (Union List) of Seventh Schedule to the Article 246 of the Constitution of India.

##### **ii. Levied by Central Government**

Income tax is charged by the Central Government on all incomes other than agricultural income. However, the power to charge income tax on agricultural income has been vested with the State Government as per entry 46 of list II, i.e., State List.

##### **iii. Direct Tax**

Income tax is direct tax. It is because the liability to deposit and ultimate burden are on same person. The person earning income is liable to pay income tax out of his own pocket and cannot pass on the burden of tax to another person.

### **iv. Annual Tax**

Income tax is an annual tax because it is the income of a particular year which is chargeable to tax.

### **v. Tax on Person**

It is a tax on income earned by a person. The term 'person' has been defined under the Income tax Act. It includes individual, Hindu Undivided Family, Firm, Company, local authority, Association of person or body of Individual or any other artificial juridical persons. The persons who are covered under Income tax Act are called 'assesseees'.

2. Define Tax. Explain the term direct tax and indirect tax with an example.

### **Tax**

Compulsory monetary contribution to the state's revenue, assessed and imposed by a government on the activities, enjoyment, expenditure, income, occupation, privilege, property, etc., of individuals and organizations.

**Direct Taxes**, as the name suggests, are taxes that are directly paid to the government by the taxpayer. It is a tax applied on individuals and organizations directly by the government e.g. income tax, corporation tax, wealth tax etc.

**Indirect Taxes** are applied on the manufacture or sale of goods and services. These are initially paid to the government by an intermediary, who then adds the amount of the tax paid to the value of the goods / services and passes on the total amount to the end user.

Examples of these are sales tax, service tax, excise duty etc.

3. List out any ten kinds of incomes chargeable under the head income tax.

**a) Wages**

**b) Annuity**

**c) Pension**

**d) Gratuity**

**e) Fees, Commission, Perquisites, Profits in lieu of or in addition to Salary or Wages**

**f) Advance of Salary**

**g) Leave Encashment**

**h) Annual accretion to the balance of Recognized Provident Fund**

**i) Transferred balance in Recognized Provident Fund**

**j) Contribution by Central Government or any other employer to Employees Pension Account as referred in Sec. 80CCD**

4. Discuss the various kinds of assesses.

**a. Normal Assessee**

i) any person against whom proceedings under Income Tax Act are going on, irrespective of the fact whether any tax or other amount is payable by him or not;

ii) any person who has sustained loss and filed return of loss u/s 139(3);

iii) any person by whom some amount of interest, tax or penalty is payable under this Act;

iv) any person who is entitled to refund of tax under this Act.

**b. Representative Assessee**

A person may not be liable only for his own income or loss but he may also be liable for the income or loss of other persons e.g. agent of a non-resident, guardian of minor or lunatic etc. In such cases, the person responsible for the assessment of income of such person is called representative assesses. Such person is deemed to be an assessee.

**c. Deemed Assessee**

i) In case of a deceased person who dies after writing his will the executors of the property of deceased are deemed as assessee.

ii) In case a person dies intestate (without writing his will) his eldest son or other legal heirs are deemed as assessee.

iii) In case of a minor, lunatic or idiot having income taxable under Income-tax Act, their guardian is deemed as assessee.

iv) In case of a non-resident having income in India, any person acting on his behalf is deemed as assessee.

**d. Assessee-in-default**

A person is deemed to be an assessee-in-default if he fails to fulfill his statutory obligations. For example, an assessee who fails to pay the demand u/s 156 within 30 days, in full, shall be deemed to be an 'Assessee in Default', except in circumstances where he has obtained Order staying the demand in due course. An assessee in default will continue to be so, unless he has cleared the demand/ obligations in full.

Further, In case of an employer paying salary or a person who is paying interest, it is their duty to deduct tax at source and deposit the amount of tax so collected in Government treasury. If he fails to deduct tax at source or deducts tax but does not deposit it in the treasury, he is known as assessee-in-default.

Chapter 33 Indirect Taxation

II. Very Short Answer Questions

1. Define Indirect tax.

If tax is levied on the goods or services of a person is collected from the buyers by another person (seller) and paid by him to the Government it is called indirect tax.

2. List out any four types of indirect taxes levied in India.

Goods and Services Tax, Excise duty. Customs duty, VAT

3. What do you mean by Goods and Services Taxes?

Goods and Services Tax (GST) is the tax imposed on the supply (consumption) of goods and services. It is a destination based consumption tax and collected on those value added items at each stage of the supply chain.

4. Write a note on SGST.

**SGST - State Goods and Services Tax**

- imposed and collected by the State Governments under State GST Act.

5. What is CGST?

**CGST - Central Goods and Services Tax**

- imposed and collected by the Central Government on all supply of goods within a state (intra-state) under CGST Act 2017

Short Answer Questions

1. write any two differences between direct taxes and indirect taxes

Differences between Direct Taxes and Indirect Taxes

	Basis	Direct tax	Indirect tax
1	<b>Evasion</b>	Tax evasion is possible	Tax evasion is more difficult
2	<b>Inflation</b>	Direct tax helps in reducing the inflation.	Indirect tax contributes to Inflation
3	<b>Shiftability</b>	Cannot be shifted to others	Can be shifted to others

2. What are the objectives of GST?

**GST objectives:**

1. Ensuring that the cascading effect of tax on tax will be eliminated.

2. Improving the competitiveness of the original goods and services, thereby improving the GDP rate too.
  3. Ensuring the availability of input credit across the value chain.
  4. Reducing the complications in tax administration and compliance.
  5. Making a unified law involving all the tax bases, laws and administration procedures across the country.
  6. Decreasing the unhealthy competition among the states due to taxes and revenues.
  7. Reducing the tax slab rates to avoid further clarification issues.
3. Briefly explain the functions of GST council.

### Functions of GST Council

As per Article 279A (4), the Council will make recommendations to the Union and the States on important issues related to GST, like

- Taxes, cesses, and surcharges to be subsumed under the GST;
- Goods and services which may be subject to, or exempt from GST;
- The threshold limit of turnover for application of GST;
- Rates of GST;
- Model GST laws, principles of levy, apportionment of IGST and principles related to place of supply;
- Special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand; and
- Other related matters.

GST rates will include the floor rates with bands, special rates for raising additional resources during natural disasters / calamities, special provisions for certain States, etc.

#### 4. Explain IGST with an example.

Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services and will be governed by the IGST Act. IGST will be applicable on any supply of goods and/or services in both cases of import into India and export from India.

**Note:** Under IGST,

- Exports would be zero-rated.
- Tax will be shared between the Central and State Government.

#### An example for IGST:

Consider that a businessman Rajesh from Maharashtra had sold goods to Anand from Gujarat worth Rs. 1,00,000. The GST rate is 18% comprised of 18% IGST. In such case, the dealer has to charge Rs. 18,000 as IGST. This IGST will go to the Centre.

#### 5. Write any three demerits of GST.\*\*\* five marks

- i. Several Economists says that GST in India would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.



- ii. Another criticism is that CGST, SGST are nothing but new names for Central Excise/Service Tax, VAT and CST. Hence, there is no major reduction in the number of tax layers.
- iii. A number of retail products currently have only four percent tax on them. After GST, garments and clothes could become more expensive.
- iv. The aviation industry would be affected. Service taxes on airfares currently range from six to nine percent. With GST, this rate will surpass fifteen percent and effectively double the tax rate.
- v. Adoption and migration to the new GST system would involve teething troubles and learning for the entire eco system.

Long Answer Questions

1. Distinguish between direct taxes and indirect taxes.

	Basis	Direct tax	Indirect tax
1	<b>Meaning</b>	If a tax levied on the income or wealth of a person is paid by that person (or his office) directly to the Government, it is called direct tax	If tax is levied on the goods or services of a person is collected from the buyers by another person (seller) and paid by him to the Government it is called indirect tax.
2	<b>Incidence and Impact</b>	Falls on the same person. Imposed on the income of a person and paid by the same person	Falls on different persons. Imposed on the sellers but collected from the consumers and paid by sellers.
3	<b>Burden</b>	More income attracts more income tax. Tax burden is progressive on people.	Rate of tax is flat on all individuals. Therefore more income individuals pay less and lesser portion of their income as tax. Tax burden is regressive.
4	<b>Evasion</b>	Tax evasion is possible	Tax evasion is more difficult
5	<b>Inflation</b>	Direct tax helps in reducing the inflation.	Indirect tax contributes to Inflation
6	<b>Shiftability</b>	Cannot be shifted to others	Can be shifted to others
7	<b>Examples</b>	Income Tax, Wealth Tax, Capital Gains Tax, Securities Transaction Tax	Goods and Services Tax, Excise duty. Customs duty, VAT

2. Discuss the different kinds of GST.

**CGST - Central Goods and Services Tax**

- imposed and collected by the Central Government on all supply of goods within a state (intra-state) under CGST Act 2017

**SGST - State Goods and Services Tax**

- imposed and collected by the State Governments under State GST Act.

**UGST - Union Territory Goods and Services Tax** - imposed and collected by the five Union Territory Administrations in India under UGST Act 2017.

**IGST - Inter-State Goods and Services Tax** - imposed and collected by the Central Government and the revenue shared with States under IGST Act 2017.

**IGST on exports** - All exports are treated as Inter-State supply under GST. Since exports are zero rated, GST is not imposed on all goods and services exported from India. Any input credit paid already on exports will be refunded.

2. Elucidate the merits of GST.

Benefits of GST

**A. To the Society and country**

1. Unified common national market will attract more foreign investment. GST has integrated the economy of all States and Union Territories.
2. It brings parity in taxation among imported goods and Indian manufactured goods. All imported goods will be charged with IGST which will be more or less equivalent to the total of CGST and SGST levied on manufactured goods. Removal of several taxes will make the price of Indian products more competitive at world market.
3. It will boost manufacturing, export, GDP leading to economic growth through increase in economic activity.
4. Creation of more employment opportunities which will result in poverty eradication.
5. It will bring more tax compliance (more tax payers) and increase revenue to the Governments.
6. It is transparent and will improve India's ranking in the 'Ease of Doing Business' in the world.
7. Uniform rates of tax will reduce tax evasion and rate arbitrage between States.

**B. To Business Community**

1. Simpler Tax System with fewer exemptions. 17 taxes were abolished and one tax exists today.
2. Input tax credit will reduce cascading effect of taxes. Reduction in average tax burden will encourage manufacturers and help "Make in India" campaign and make India as a manufacturing hub.
3. Common procedures, common classification of goods and services and timelines will lend greater certainty to taxation system.
4. GSTN facility will reduce multiple record keeping, lesser investment in manpower and resources and improve efficiency.
5. All interactions will be through common GSTN portal and will ensure corruption free administration.
6. Uniform prices throughout the country. Expansion of business to all states is made easy.

**C. To Consumers**

1. Input tax credit allowed will lower the prices to the consumers.
2. All small retailers will get exemption and purchases from them will cost less for the consumers.

3. Compare CGST, SGST and IGST

	<b>Basis</b>	<b>CGST</b>	<b>SGST</b>	<b>IGST</b>
<b>1</b>	<b>Meaning</b>	CGST means Central goods and service tax to replace the existing tax like service tax, excise, etc. and It is levied by central government	SGST means State goods and service tax, replace the existing tax like sales tax, luxury tax, entry tax, etc. and it is levied by the state government	IGST refers to the Integrated Goods and Services Tax and it is a combined form of CGST and IGST and it is levied by central government
<b>2</b>	<b>Collection of tax</b>	Central government	State government	Central government
<b>3</b>	<b>Applicability</b>	Intra-state supply	Intra-state supply	Inter-state supply
<b>4</b>	<b>Registration</b>	No registration till the turnover crosses 20 lakhs ( 10 lakhs for north eastern states)	No registration till the turnover crosses 20 Lakhs ( 10 lakhs for north eastern states)	Registration is mandatory
<b>5</b>	<b>Composition scheme apply limit</b>	The dealer can use the benefit up to 1 core *** under the composition scheme	The dealer can use the benefit up to 1 core *** under the composition scheme	The composition scheme is not applicable in interstate supply