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GST MIND TRAP MCQs

- ⚠️ These questions are specifically designed to trap students who apply rules without understanding exceptions. Read each question carefully before answering.

Q.1 Rahul is a supplier of goods with aggregate turnover of ₹38 lakh in the previous FY. He operates only within one state (Maharashtra). Is he mandatorily required to register under GST?

- A) Yes - turnover exceeds ₹20 lakh
B) No - threshold for goods is ₹40 lakh, so not required
C) Yes - threshold is ₹20 lakh irrespective of type of supply
D) No - since he is intra-state only, RCM applies instead

✔️ **Answer: B**

No - threshold for goods is ₹40 lakh, so not required.

🔴 **Law:** Sec 22 CGST - ₹40 lakh threshold applies exclusively to suppliers of goods in normal states. ₹20 lakh applies to service suppliers and special category states.

Q.2 ABC Ltd. takes ITC on a motor vehicle used exclusively for transportation of its employees from home to office and back (not for transportation of goods or passengers as a business). What is the ITC treatment?

- A) Fully available - used for business purpose
B) Blocked under Section 17(5) - motor vehicles not used for specified purposes
C) 50% available, 50% blocked
D) Available only if turnover exceeds ₹1 crore

✔️ **Answer: B**

Blocked under Section 17(5) - motor vehicles not used for specified purposes.

🔴 **Law:** Sec 17(5)(a) CGST - ITC on motor vehicles (≤13 passenger seats) is blocked UNLESS used for: (i) further supply of vehicles, (ii) transportation of passengers as a business, (iii) imparting driving training, or (iv) transportation of goods.

Q.3 Mr. X, a registered person, receives a supply from an unregistered supplier worth ₹8,000. Under which provision is RCM attracted?

- A) RCM under Sec 9(3); invoice must be issued by supplier
B) RCM under Sec 9(4); payment voucher to be issued by Mr. X himself
C) No RCM - threshold for RCM under Sec 9(4) is ₹5,000/day
D) RCM under Sec 9(4) only if supply is notified

✔️ **Answer: D**

RCM under Sec 9(4) only if supply is notified.

🔴 **Law:** Sec 9(4) CGST (post-2018 amendment) - RCM from unregistered suppliers applies only to notified categories (e.g., raw cotton, tobacco leaves). A general purchase from an unregistered person does NOT attract RCM.

Q.4 A composite dealer has an aggregate turnover of ₹1.4 crore and is engaged only in trading of goods. The applicable composition rate (total) is:

- A) 1% (0.5% CGST + 0.5% SGST)
B) 2% (1% CGST + 1% SGST)
C) 5% (2.5% CGST + 2.5% SGST)
D) 6% (3% CGST + 3% SGST)

✔️ **Answer: A**

1% (0.5% CGST + 0.5% SGST)

🔴 **Law:** Rule 7 CGST Rules - For traders (suppliers of goods), composition rate = 1% of turnover of taxable supplies (0.5% CGST + 0.5% SGST). Manufacturers pay 2%.

Category	Composition Rate
Traders (goods)	1% (0.5% CGST + 0.5% SGST)
Manufacturers	2% (1% CGST + 1% SGST)
Restaurants (not serving alcohol)	5% (2.5% CGST + 2.5% SGST)

Q.5 An advance of ₹5 lakh is received by a supplier of services on 1st June. The invoice is raised on 20th June. What is the time of supply for the advance amount?

- A) 20th June - date of invoice
B) 1st June - date of receipt of advance
C) Time of supply arises only when full payment is received
D) No time of supply for advances on services if invoice issued within 30 days

✔️ **Answer: B**

1st June - date of receipt of advance.

🔴 **Law:** Sec 13(2) CGST - Time of supply for services - earlier of: (a) date of invoice or completion of service, or (b) date of receipt of payment. Note: For goods, advances do NOT create a separate time of supply event (Notification 66/2017).

Q.6 XYZ Ltd. exports goods without payment of IGST under a Letter of Undertaking (LUT). Can XYZ claim refund of ITC accumulated on inputs used for such exports?

- A) No - exports are exempt; ITC is not available on exempt supplies
B) Yes - exports are zero-rated, refund of unutilised ITC is allowed
C) Yes - but only IGST paid on inputs, not CGST/SGST
D) No - LUT exports are treated as deemed domestic supplies

✔️ **Answer: B**

Yes - exports are zero-rated, refund of unutilised ITC is allowed.

🔴 **Law:** Sec 16 IGST + Sec 54 CGST - Zero-rated supply ≠ exempt supply. On zero-rated supplies without payment of tax, the supplier can claim refund of accumulated ITC on inputs, input services, and capital goods.

Q.7 A hotel charges ₹8,500 per night per room. What GST rate applies?

- A) Nil - hotels below ₹10,000 are exempt
B) 12% - declared tariff between ₹7,500 and ₹12,499
C) 18% - transaction value above ₹7,500
D) 5% - hospitality services standard rate

✔️ **Answer: C**

18% - transaction value above ₹7,500.

🔴 **Law:** HSN 9963 - Post rate rationalization (effective 18 July 2022), hotel accommodation attracts 18% GST when transaction value per unit per day exceeds ₹7,500. Below ₹7,500 - 12%. The concept of 'declared tariff' was removed.

Q.8 Ram & Co. receives legal consultancy services from an advocate for ₹3 lakh. Ram & Co. is a registered business entity. Who pays GST?

- A) Advocate pays GST under forward charge
B) Ram & Co. pays GST under Reverse Charge Mechanism
C) No GST - legal services are exempt under GST
D) Both pay GST: advocate on supply, Ram & Co. on receipt

✔️ **Answer: B**

Ram & Co. pays GST under Reverse Charge Mechanism.

🔴 **Law:** Notification 13/2017-CT(Rate) Sec 9(3) - Legal services by individual advocate to a business entity are notified under RCM. The registered business (recipient) pays GST. Legal services to individuals are exempt.

Q.9 Under GST, a 'Bill of Supply' is issued instead of a Tax Invoice in which of the following cases?

- A) When supply is to an unregistered person
B) When the registered supplier makes exempt supplies or is under Composition Scheme
C) When the value of supply is below ₹200
D) When goods are supplied on credit

✔️ **Answer: B**

When the registered supplier makes exempt supplies or is under Composition Scheme.

🔴 **Law:** Sec 31(3) CGST - Bill of Supply is issued by: (i) a registered person making exempt supplies, or (ii) a composition taxpayer. The ₹200 rule relates to optional non-issuance of invoice for small B2C supplies, not Bill of Supply.

Q.10 Mr. A provides works contract services for construction of a commercial building to XYZ Ltd. XYZ Ltd. uses this building for its own office use. Can XYZ claim ITC?

- A) Yes - used for business purposes, ITC is available
B) No - works contract services for construction of immovable property are blocked under Sec 17(5)
C) Yes - commercial buildings are not covered under the ITC block
D) 50% available as per Rule 42

✔️ **Answer: B**

No - works contract services for construction of immovable property are blocked under Sec 17(5).

🔴 **Law:** Sec 17(5)(c) & (d) CGST - ITC blocked on works contract for construction of immovable property (other than plant and machinery), regardless of commercial/residential nature. Exception: if taxpayer's own business is works contracts.

Q.11 Seema Enterprises has taxable and exempt supplies in ratio 70:30. ITC on common inputs is ₹10,000. What amount of ITC is reversible under Rule 42?

- A) ₹3,000 (proportionate to exempt supplies)
- B) ₹7,000 (proportionate to taxable supplies)
- C) ₹10,000 (full reversal)
- D) ₹5,000 (50% always reversed)

✓ Answer: A

₹3,000 (proportionate to exempt supplies).

✚ **Law:** Rule 42 CGST Rules - Reversal = Total common ITC × (Exempt turnover / Total turnover) = ₹10,000 × 30% = ₹3,000. Net ITC available = ₹7,000.

Q.12 An e-commerce operator supplies housekeeping services through its platform. Who is liable to pay GST?

- A) The housekeeping service provider (actual supplier)
- B) The e-commerce operator under Sec 9(5)
- C) The recipient of service
- D) Both operator and service provider jointly

✓ Answer: B

The e-commerce operator under Sec 9(5).

✚ **Law:** Sec 9(5) CGST + Notification 17/2017 - For notified services (including housekeeping, radio-taxi, beauty/wellness), the e-commerce operator is liable to pay GST even though the actual supplier provides the service.

Q.13 GST is levied on ocean freight for import of goods on CIF basis. Who pays GST and under what mechanism?

- A) Foreign shipping line pays IGST on forward charge
- B) Indian importer pays IGST under Reverse Charge Mechanism
- C) Customs authority collects it along with Basic Customs Duty
- D) No GST on ocean freight - Supreme Court struck it down

✓ Answer: D

No GST on ocean freight - Supreme Court struck it down.

✚ **Law:** Mohit Minerals v. UOI (SC, 2022) - IGST on ocean freight for CIF imports is unconstitutional as it amounts to double taxation (freight value already included in import value). As per current law, no IGST is payable. Always check ICAI study material edition for exam purposes.

Q.14 Rehan received goods on 5th July. The invoice is dated 1st June but was not received by him until 3rd August. When can he claim ITC at the earliest?

- A) 1st June - date of invoice
- B) 5th July - date of receipt of goods
- C) 3rd August - date of receipt of invoice
- D) In the return for the tax period in which both invoice is received AND goods are received

✓ Answer: D

In the return for the tax period in which both invoice is received AND goods are received.

✚ **Law:** Sec 16(2) CGST - ITC conditions: (a) possession of tax invoice, (b) receipt of goods/services, (c) tax paid to government, (d) return filed. ITC can be claimed only when ALL conditions are met. Here, goods received 5th July + invoice received 3rd August → ITC available in August return.

Q.15 A supply involves AC (18% GST) as principal supply and installation service (18% GST) as ancillary supply – a Composite Supply. What is the GST rate?

- A) 18% - rate of principal supply
- B) 18% - since both have same rate, it doesn't matter
- C) 9% - average of both rates
- D) 28% - higher rate applies in composite supply

✓ Answer: A

18% - rate of principal supply.

✚ **Law:** Sec 8(a) CGST - Composite supply is taxed at the rate of the principal supply. Contrast: Mixed supply (Sec 8(b)) - highest rate among all supplies.

Q.16 A registered person files GSTR-1 late with NIL outward supplies. Is late fee payable? If yes, how much?

- A) No - NIL return filers are exempt from late fee
- B) Yes - ₹200 per day (₹100 CGST + ₹100 SGST)
- C) Yes - ₹50 per day (₹25 CGST + ₹25 SGST) as reduced rate for NIL returns
- D) No - late fee applies only to GSTR-3B, not GSTR-1

✓ Answer: C

Yes - ₹50 per day (₹25 CGST + ₹25 SGST) as reduced rate for NIL returns.

✚ **Law:** Sec 47 CGST + Notification 4/2018 - Late fee for GSTR-1: NIL return = ₹50/day (₹25 CGST + ₹25 SGST), max ₹2,000. Other returns = ₹200/day (₹100 CGST + ₹100 SGST).

Q.17 Under GST, the place of supply for banking and financial services where the location of recipient is NOT available is:

- A) Location of the bank branch
- B) Location of the service provider
- C) Delhi (default place of supply)
- D) Location determined by RBI notification

✓ Answer: B

Location of the service provider.

✚ **Law:** Sec 12(12) IGST Act - Place of supply for banking/financial services - location of recipient if available in records. If NOT available → place of supply = location of the supplier.

Q.18 Apex Ltd. sells goods to Beta Ltd. for ₹1,00,000 and additionally charges ₹5,000 as interest for delayed payment of a previous invoice. Is ₹5,000 subject to GST?

- A) No - interest is a financial service, exempt under GST
- B) Yes - it forms part of the value of supply under Sec 15
- C) No - charges for delay are penal in nature, not supply
- D) Yes, but only if it exceeds 12% per annum

✓ Answer: B

Yes - it forms part of the value of supply under Sec 15.

✚ **Law:** Sec 15(2)(d) CGST - Value of supply includes any interest, late fee, or penalty for delayed payment of consideration. ₹5,000 trade interest is includible and taxed at the same rate as the underlying supply. Bank loan interest is different.

Trade Interest (Sec 15(2)(d))

Charged by supplier on delayed payment. **Includible** in value of supply. GST applicable at same rate as underlying supply.

Bank Loan Interest

Charged by a bank/NBFC on loans. **Exempt** under GST as a financial service. Different treatment entirely.

Q.19 Mr. P is a GTA who has NOT opted to pay GST under forward charge. XYZ Ltd. (registered) hires Mr. P to transport goods. Who pays GST and can XYZ claim ITC?

- A) Mr. P pays GST; XYZ cannot claim ITC
- B) XYZ pays GST under RCM; XYZ CAN claim ITC on such GST paid
- C) XYZ pays GST under RCM; XYZ CANNOT claim ITC as RCM tax is blocked
- D) No GST - GTA is exempt when hired by registered persons

✓ Answer: B

XYZ pays GST under RCM; XYZ CAN claim ITC on such GST paid.

✚ **Law:** Sec 9(3) CGST + Sec 16 CGST - GTA to registered persons - RCM. XYZ pays GST under RCM. ITC IS available to XYZ on such RCM payments, provided Sec 16 conditions are satisfied.

Q.20 A supplier issues a Credit Note on 20th November 2024 for a supply made in April 2024. The annual return for FY 2023-24 is yet to be filed. Can this credit note be declared in GST returns?

- A) No - credit note must be issued within 30 days of original supply
- B) Yes - it can be declared up to 30th November 2024 (earlier of: 30th Nov of next FY or date of filing annual return)
- C) Yes - no time limit for credit notes under GST
- D) No - credit note can only be issued before the due date of the original return

✓ Answer: B

Yes - it can be declared up to 30th November 2024 (earlier of: 30th Nov of next FY or date of filing annual return).