Paper 7 – Direct Taxation

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Time Allowed: 3 Hours **Full Marks: 100**

Answer Question No. 1 which is compulsory and any FOUR from Question No 2 to 7.

1.

(a) Fill in the blanks: **5 x 1 = 5**

(i) Interest relating to pre construction period is allowable in _________.

(ii) Transport allowance is exempt upto _________.

(iii) ICDS are to be followed by all assessee following ________ basis of accounting.

(iv) TDS on salaries is covered under section __________

(v) Within 15th December ______ of amount is payable as Advance Tax.

(b) Choose the most appropriate alternative. **5 x 1 = 5**

(i) Number of identities included in the definition of persons.
- (a) 5
- (b) 7
- (c) 9
- (d) None of the above

(ii) Threshold limit for eligible business u/s 44AD is ____________.
- (a) 1 Crore
- (b) 2 Crore
- (c) None of the above

(iii) Quantum of deduction in respect of a person with severe disability is __________.
- (a) 50,000
- (b) 100,000
- (c) 1,25,000
- (d) None of the above

(iv) PAN is a _________ digit unique alphanumeric.
- (a) 8 digit
- (b) 10 digit
- (c) 15 digit
- (d) None of the above

(v) Maximum amount of standard deduction in case of family pension.
- (a) 5,000
- (b) 10,000
- (c) 15,000
- (d) None of the above

(c) State true or false with reasons: **5 x 2 = 10**

(i) Is certificate prepared by the Tax Recovery officer may be disputed by the assessee.

(ii) In case of conflict between provision of Income tax act and ICDS, the provision of income tax will prevail.

(iii) ICDS are to be applied in computation of income under head PGBP and capital Gain.

(iv) Non residents are required to quote PAN.

(v) Meaning of substantial interest will carry 51% percentage of voting power .

Answer: 1.a.

i. 5 equal instalments

ii. 1,600 p.m
iii. Mercantile basis
iv. Section 192
v. 75%

Answer: 1.b.

i. b
ii. b
iii. c
iv. b
v. c

Answer: 1.c.

i. False:
Certificate prepared by the Tax Recovery officer can never be disputed by the assessee.

ii. True:
In case of conflict between provision of Income tax act and ICDS, the provision of income tax will prevail.

iii. False:
ICDS are to be applied in computation of income under head PGBP and Other source.

iv. False:
Non residents are exempt from quoting PAN.

v. False:
Meaning of substantial interest will carry 20% percentage of voting power .

2. a.) On the basis of the following information compute the taxable income of Mr Pankaj under the head "Salaries" for the A.Y 2017-18.

(i) Basic salary ₹ 18,400 p.m.
(ii) Dearness Allowance ₹ 4,200 p.m
(iii) Entertainment allowance ₹ 750 p.m
(iv) Tribal area allowance ₹ 350 p.m
(v) His own contribution towards statutory provident fund ₹ 1,000 p.m
(vi) Employer contribution ₹ 1,000 p.m
(vii) Interest credited to SPF @ 10% ₹ 13,000
(viii) House rent allowance ₹3,600 p.m

Mr Pankaj is an employee of the Government of UP. He is paying ₹ 4,400 p.m as house rent.

8 Marks

2. b.) Sri Rajat is the owner of a business. Following is his P & L A/c for the year ended on 31.3.2017. Compute the Gross Total Income for the AY 2017-18.

7 marks

Profit & Loss A/c for the year ending 31.3.2017

Particulars	Amount (₹)	Particulars	Amount (₹)
Establishment charges	5,110	Gross profit	50,870
Rent, rates and taxes	2,900	Interest on Govt. Securities (Gross)	5,350
Sundry expenses	7,050	Rent from property	5,400
Household expenses	1,880		

Provision for bad debts	1,200		
Loss on sale of motor car (used for private purpose)	1,800		
Insurance premium (including life insurance of ₹ 1790)	2,880		
Interest on bank loan	1,380		
Provision for Depreciation	6,400		
Net profit	31,020		
	61,620		61,620

Other Information are as below;

(i) Bad debts written off during the year — ₹ 650

(ii) Admissible depreciation as per Income-tax rules — ₹ 1,600

(iii) The assessee is running his business in a rented property, half of which is used by him for his own residence. Rent of ₹ 2,400 in respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 are on account of municipal tax paid for property respect of entire house is included in rent, rates and taxes. The balance of ₹ 500 are on account of municipal tax paid for property.

Answer:2.a

	₹	₹
Basic Salary (₹ 18,400 x 12)		2,20,800
Dearness Allowance (₹ 4,200 x 12)		50,400
Entertainment allowance		9,000
Tribal area allowance	4,200	
Less: Exempt @ 200 p.m	2,400	1,800
House rent allowance (₹ 43,200 – 30,720)		12,480
		2,94,480
Less: Deduction on account of entertainment allowance u/s 16(ii)		5,000
Income from salaries		2,89,480

Working Note:

1. Taxable portion of house rent allowance is calculated as under;

   (i) Actual HRA received 43,200

   (ii) 40% of Salary (₹ 2,20,800) 88,320

   (iii) Excess of rent paid over 10% of salary (52,800 – 22,080) 30,720

   The minimum of the above amounts i.e ₹ 30,720 is exempt and the balance (43,200 – 30,720) ₹ 12,480 is taxable.

2. Entertainment allowance is deductible to the following extent, as he is a Government employee.

   (i) Actual allowance ₹ 9,000

   (ii) 20% of salary ₹ 44,160

   (iii) Specified amount ₹ 5,000

   The minimum amount of above amounts i.e ₹ 5,000 is allowed.

3. In the case of a statutory provident fund interest is exempt without any limit. Similarly employers' contribution is also totally exempt.

Answer:2.b.

Computation of Gross Total Income of Sri. Rajat for the A.Y 2017-18

Particulars	₹	₹
Income from house property		
Rent received Less: Municipal Taxes	5,400 500	 4,900
Less: Standard Deduction @30%		1,470
		3,430
Profit and Gains from Business and Profession Profit as per P & L Account Add: Inadmissible Expenses Rent (50% for Personal use) Household expenses Provision for Bad debt Loss on sale of Car Life Insurance Premium Provisions for Depreciation M. Taxes for let out House Property	 1,200 1,880 1,200 1,800 1,790 6,400 500	31,020 14,770
Less: Expenses allowed but not debited to P & L A/c. Bad debts Depreciation	 650 1,600	 2,250
Less: Income not taxable under this head but credited to P& L A/c Interest on Govt Securities Rent from property	 5,350 5,400	43,540 10,750
Income from Business		32,790
Income from other sources Interest on securities		5350
Gross Total Income (₹ 3,430 + ₹ 32,790 + ₹ 5,350)		41,570

3. a.) Sagar owns a house property which is self-occupied by him till 30.11.2016 and thereafter let out for ₹ 10,000 p.m. The municipal value of house property is ₹ 1,00,000 and the fair rent is ₹ 1,20,000. Rajat paid ₹ 1,50,000 as municipal taxes during the previous year which relate to past years as well as for current year.

Determine the income from house property assuming the insurance premium and interest paid during the year were ₹ 3,000 & ₹ 25,000 respectively. **8 marks**

3. b.) From the following information, compute the tax payable by Shyam for the A.Y 2017-18.

Listed shares purchased on 31.8.1992 for ₹ 40,000 sold for ₹ 2,00,000 on 1.11.2016 through a recognized stock exchange. Gold ornaments purchased for ₹ 2,00,000 on 1.9.1993 sold for ₹ 8,80,000 on 1.12.2016. His gross salary for the previous year ending 31.3.2017 was ₹ 2,60,000.

7 marks

Answer:3.a Computation of income from house property

Particulars	Amount (₹)	Amount (₹)
Gross Annual Value which shall be higher of the following two: Expected Rent Actual rent received or receivable (10,000 x 4)	 1,20,000 40,000	 1,20,000
Less: Municipal Value		1,50,000
Net Annual Value		(-) 30,000
Less: Deduction u/s 24 a) Statutory u/s 24 b) Interest paid Deduction to be allowed	 Nil 25,000	 25,000
Income from House Property		(-)55,000

Answer:3.b.

Particulars	Amount (₹)	Amount (₹)	Amount ₹)
Income under head salary			
Gross salary	2,60,000		
Less: Deduction	Nil		2,60,000
Long-term capital gain			Exempt
(a) From Shares Sold through recognised stock exchange Consideration price	 8,80,000 9,22,131	Exempt (-) 42,131	 -
Total Income			2,60,000
Tax on ₹2,60,000			1,000
Less: Rebate u/s 87A			1,000
Tax Payable			Nil

Note:
1. Long term capital gain on listed securities shall be exempt u/s 10(38).
2. Long term capital loss of ₹ 2,06,066 on gold is not allowed to be set off from other income. Hence, it shall be carried forward to claim it as set off from LTCG in subsequent years

4. a.) Amit submits you the following particulars of his income for the assessment year 2017-18.
7 marks

Particulars	Amount (₹)
Income under the head Salary	6,00,000
Income under the head house property	3,00,000
Dividends from domestic company	14,00,000
Compute tax payable by him	

4. b.) Pankaj has the following income and brought forward losses for the year ended 31.3.2017.
8 marks

Particulars	Amount (₹)
STCG on sale of shares	2,60,000
LTCL of A.Y 2015-16	90,000
STCL of A.Y 2016-17	80,000
LTCG	78,000
Income from lotteries	3,10,000
Cost of lottery ticket purchased	2,000
Loss from betting	(1,20,000)

Income from card games	80,000

Briefly compute the gross total income and loss eligible for carry forward in the hands of Mr. Pankaj for the A.Y 2017-18.

Answer:4.a

Computation of total income of Amit for the assessment year 2017-18

Particulars	Amount (₹)	Amount (₹)
Income under the head salary (computed)		6,00,000
Income under the head house property		3,00,000
Income from other sources Less: Exemption u/s 34 Balance Taxable	14,00,000 10,00,000	 4,00,000
Gross Total Income		13,00,000
Less: Deduction u/s 80C to 80U		Nil
Total Income		13,00,000
Tax payable Tax on dividend exceeding ₹ 10,00,000 (4,00,000m x 10%)		 40,000
Tax on total Income of ₹ 9,00,000 ₹ 2,50,000 Tax on next ₹ 2,50,000 @ 10% Tax on balance income of ₹ 4,00,000	 Nil 25,000 80,000	 1,05,000
Tax		1,45,000
Add: EC & SHEC @ 3%		4,350
Total tax payable		1,49,350

Answer:4.b.

	₹	₹
Capital Gain		
STCG on sale of shares	2,60,000	
Less: Brought forward short term capital gain	(80,000)	1,80,000
LTCG	78,000	
Less: Brought forward capital loss of A.Y 2015-16 (see note-1)	78,000	Nil
Income chargeable under head capital gains		1,80,000
Income from other sources		
(a) Income from lotteries (cost of lottery tickets not deductible)	3,10,000	
(b) Income from card games	80,000	3,90,000
Gross Total Income		5,70,000

Note:

1. LTC Loss cannot be set off against short term capital gain. Hence the unadjusted long term capital loss of A.Y 15-16 of ₹ 12,000 has to be carried forward the next year to be set off against the long term capital gain of that year.
2. Loss from betting can neither be set off against any other income nor can it be carried forward to subsequent year.
3. As per section 58(4), cost of lottery cannot be set off against income from lotteries.

5. a.) The total income of Mrs P, a resident in India, computed for assessment year 2017-18 is ₹ 3,20,000 which includes long term capital gain of ₹ 30,000 and winning of lotteries ₹ 20,000 and short term capital gain covered under section 111A ₹ 10,000. Compute the tax payable assuming his agricultural income for the financial year was ₹ 2,50,000.

8 marks

5. b.) The estimated gross total income of Mr. Pankaj is ₹ 7,45,000 which includes ₹ 1,00,000 on account of LTCG earned on 16th September 2016. Compute the advance tax payable by Mr Pankaj, assuming ₹ 11,000 have been deducted at source during the financial year 2016-17. **7 Marks**

Answer: 5.a.

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
Step-1 Add agricultural income and non agricultural income and calculate tax on the aggregate as if such aggregate income is the total income. Tax on Long term Capital gain @20% on ₹ 30,000 Tax on winning lotteries @ 30% on ₹ 20,000 Tax on Short term Capital Gain u/s 111A @ 15% on ₹ 10,000	2,50,000 2,60,000	5,10,000 6,000 6,000 1,500	27,000 13,500 40,500
Step-2 Add agricultural income with maximum exemption limit available in case of the assessee and compute tax on such amount as if it is the total income.	2,50,000 2,50,000	5,00,000	25,000
Step-3 Deduct the amount of income tax from step 1 - step 2			15,500
Less: Rebate u/s 87A			5,000
			10,500
Step-4 Add surcharge if applicable plus education cess and SHEC @ 3%			315
Tax Payable (rounded off)			10,820

Answer: 5.b.

Particulars	Amount (₹)	Amount (₹)
Estimated tax liability with LTCG On ₹ 6,45,000 On LTCG of ₹1,00,000 @ 20%	 54,000 20,000	 74,000
Add: Education cess & SHEC @ 3%		2,220
Total Income		76,220
Less: TDS		11,000
		65,220
Estimated Tax Liability without LTCG Tax on ₹ 6,45,000 = ₹ 54,000+ ₹ 1,620 Less: TDS	 55,620 11,000	 44,620

Advance tax payment schedule

Particulars	Due date	%	Amount (₹)
1st Instalment	15th June, 2016	15%	6,693
2nd Instalment	15th Sept, 2016	45%	13,386
3rd Instalment	15th Dec, 2016	75%	28,836
4th Instalment	15th Mar, 2017	100%	16,305

6. a.) List down the list of transaction which is not regarded as transfer.

7 Marks

6. b.) When a return is considered to be defective under section 139(9).

8 Marks

Answer:6.a. Enumerated list of transactions are not regarded as transfer;

1. Any transaction in a demerger of a capital asset by a demerged company to the resulting Indian Company.
2. Any transfer in a business reorganization of a capital asset by the predecessor cooperative bank to the successor cooperative bank.
3. Any transfer of capital assets by a company to its wholly owned Indian company.
4. Any distribution of assets of a company to its shareholders on liquidation.
5. Any distribution of capital assets on the total or partial portion of a Hindu undivided family.
6. Any transfer of agriculture land in India effected before 1st March 1970
7. Any transfer of a capital assets, being bonds or global depository receipts referred to in section 115AC (1) made outside India by a non resident to another non resident.

Answer:6.b.

When a return is considered to be defective [Explanation to Section 139(9)] : A return of income shall be regarded as defective unless all the following conditions are fulfilled:

(a) the annexures, statements and columns in the return of income relating to computation of income chargeable under each head of income, computation of gross total income and total income have been duly filled in;

(b) the return is accompanied by a statement showing the computation of the tax payable on the basis of the return;

(c) the return is accompanied by the report of the audit u/s 44AB, or where the report has been furnished prior to the furnishing of the return, by a copy of such report together with proof of furnishing the report;

(d) the return is accompanied by a proof of the tax, if any, claimed to have been deducted or collected at source and the advance tax, self-assessment tax, if any, claimed to have been paid. However, if the return is not accompanied by proof of tax, if any, claimed to have been deducted at source [see box below] the return shall not be regarded as defective, if a certificate for tax deducted was not furnished under Section 203 or Section 206C (Form. 16 or 16A) to the person furnishing his return of income and such certificate is produced within a period of two years from the end of the assessment year in which the income is assessable.

(e) where regular books of account are maintained by the assessee, the return is accompanied by copies of:

- manufacturing account, trading account, profit and loss account or as the case may be, income and expenditure account or any other similar account and balance sheet;
- in the case of a proprietary business or profession, the personal account of the proprietor; in the case of a firm association of persons or body of individuals,

personal accounts of the partners/ members;
and in the case of a partner or member of a firm, association of persons or body of individuals, also his personal account in the firm /AOP/ BOI;

(f) where the accounts of the assessee have been audited, the return is accompanied by copies of the audited profit and loss account and balance sheet and the auditor's report, and where an audit of cost accounts of the assessee has been conducted under Section 233B of the Companies Act, also the report under that Act;

(g) where regular books of account are not maintained by the assessee, the return is accompanied by a statement indicating the amounts of the turnover or, as the case may be, gross receipts, gross profit, expenses and net profit of the business or profession and the basis on which such amounts have been computed and also disclosing the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.

However, by virtue of the newly inserted Section 139C, the Board may make rules for dispensing with furnishing, statements, receipts, certificates, audited reports or any other documents along with return. Similarly, by virtue of Section 139D, the Board is empowered to make rules for the purposes of filing return in electronic form.

7. Write a short note on the followings: **5 x 3=15 Marks**

a) Partial Integration and Non Integration of Agricultural Income.
b) Advance Tax.
c) Relief under section 89.

Answer:7.a.

Partial Integration and Non Integration of Agricultural Income: Though there is no tax on Agricultural Income but if the assessee has non agricultural income as well as agricultural income such agricultural income is included in Total Income for the purpose of computation of income tax on non agricultural income. This is also known as partial integration of agricultural income with non agricultural income or indirect way of taxing agricultural income.
Such can be incorporated only when the enumerated two conditions are satisfied:

- Non Agricultural income exceeds the maximum tax exemption limit,
- Agricultural income exceeds ₹ 5,000.

Income which is partially Agricultural and partly from business:

Sl/No.	Rule	Nature of Income	Business Income (BI)	Agricultural Income (AGI)
1.	7A	Growing and selling of Rubber	35%	65%
2.	7B(1)	Sale of coffee grown and cured by the seller.	25%	75%
3.	7B(2)	Sale of coffee grown, cured, roasted, and grounded by the seller with or without mixing chicory.	40%	60%
4.	Composite Business	Such as growing sugarcane & manufacturing sugar, growing	Sale value of final product	Market value of Agricultural

		cotton manufacturing textiles, growing jute manufacturing jute bags, growing of tomato's and manufacturing of tomato sauce, growing potato and manufacturing of potato chips etc	**Less:** Market value of Agricultural product Other Expenses	produce **Less:** Cost of growing Agricultural produce

Answer:7.b.

Advance tax is another means by which the Central Government collects tax in form of prepaid taxes. This scheme is known as **"Pay as you Earn"** i.e. the assessee is required to pay tax during the previous year itself, though such income is chargeable to tax during the assessment year. It is payable on Current Income in installments.

1. Liability for payment of advance tax [Section 207(1) & 208]:

The obligation to pay advance tax arises in every case where the advance tax payable is ` 10,000 or more.

2. No Advance Tax [Section 207(2)]:

A resident senior citizen (aged sixty years or more), not having any income under the head "Profits and gains of business or profession", shall not be liable to pay advance Tax.

3. Computation of advance tax:

(1) An assessee has to estimate his current income and pay advance tax thereon. He need not submit any estimate or statement of income to the Assessing Officer (A.O), except where he has been served with notice by the Assessing Officer.

(2) The A.O, if he is of the opinion that assessee is liable to pay advance tax, can serve an order under section 210(3) requiring the assessee to pay advance tax.

(3) The above order can be served by the A.O at any time during the financial year but not later than the last date of February.

(4) If the assessee feels that his own estimate of advance tax payable would be less than the one sent by the Assessing Officer, he can file estimate of his current income and advance tax payable thereon.

(5) In all cases, the tax calculated shall be reduced by the amount of tax deducted /collected at sources.

Answer:7.c.

Relief under section 89 may be provided in the enunciated cases provided the conditions stipulated under **Rule 21A** is fulfilled;

(i) In respect of Salary received in advance or in arrears,
(ii) In respect of compensation or termination of employment,
(iii) In respect of commutation of employment,
(iv) In respect of other payments,
(v) In case of family pension paid in arrears to family members of the deceased employee.

Tutorial Notes:
In Case of **Voluntary Retirement Scheme (VRS)** the assessee has an option either to claim exemption under **Section 10(10C) or Relief under section 89(1) but not the both.**

Key Note:
Slab rate of the Earlier Year will be given in the Examination to the students so, calculate the tax accordingly **don't be** panic about how to know (remember) about slab rates of previous Assessment Years. **It will always be given.**

Section-B (20 Marks)

International Taxation and Transfer Pricing

Answer question No. 8 which is compulsory and any one from Question No.9 and 10

8. a) Fill in the blanks: **[4 x 1=4 Marks]**

a. Advance pricing agreement is valid for the period not exceeding ____ consecutive previous year as may be prescribed in the agreement
b. If one enterprise holds at least 51% of book value of the total assests of another enterprise, they are said to be __________ enterprises.
c. The determination of Arm's Length price u/s __________shall be subject to safe harbour rules.
d. __________ a transaction between enterprises other than associated enterprises, whether resident or non-resident.

8. b) Select the suitable answer: **[4 x 1=4 Marks]**

a. Penalty under section 271(1) (c) shall be levied at _______ of the taxes evaded.
   A. 50 to 100%
   B. 100 to 300%
   C. 200 to 500%
   D. None of the above
b. Arm's length price is to be determined by applying_____________.
   A. Resale price method
   B. Fair market value method
   C. Stamp duty value method
   D. Indexed cost of acquisition method
c. ______deals with the methods of computation of arm's length price.
   A. 92
   B. 92C
   C. 80C
   D. 90
d. Relief in case of specified associations in India which enters into an agreement with any specified associations in a specified territory outside India is given under section.
   A. 92
   B. 90
   C. 90A
   D. 92C

Answer:8.a.

i. 5 years

ii. Associated enterprise
iii. 92C or section 92CA
iv. Uncontrolled transaction

Answer:8.b.

i. B
ii. A
iii. B
iv. D

9. a. Discuss in brief Transaction Net Margin Method (TNMM)

6 Marks

9. b. What are the difficulties in applying the Arm's Length Principle?

6 Marks

Answer:9.a

TRANSACTION NET MARGIN METHOD (TNMM)

Step I: Compute the net profit margin realised by the enterprise from an international transaction entered into with an associated enterprise, in relation to costs incurred or sales effected or assets employed by enterprise or having regard to any other relevant base.

Step II: Compute the net profit margin realised by the enterprise or by an unrelated enterprise from a comparable uncontrolled transaction (s), having regard to the same base as in Step I.

Step III: Adjust the net profit margin as per Step II for differences, if any, which could materially affect amount of net profit margin in the open market :
(a) between the international transaction and the comparable uncontrolled transactions, or
(b) between the enterprises entering into such transactions.

Step IV: Net Profit Margin for uncontrolled transactions = Step II Add/Less Step III.

Step V: Arm's Length Price = Transaction Value x Net Profit Margin as per Step IV above.

Answer:9.b.

Difficulties in applying the arm's length principle

The arm's length principle, although survives upon the international consensus, does not necessarily mean that it is perfect. There are difficulties in applying this principle in a number of situations.

(a) The most serious problem is the need to find transactions between independent parties which can be said to be exact compared to the controlled transaction.
(b) It is important to appreciate that in an MNE system, a group first identifies the goal and then goes on to create the associated enterprise and finally, the transactions entered into. This procedure

obviously does not apply to independent enterprises. Due to these facts, there may be transactions within an MNE group which may not be between independent enterprises.

(c) Further, the reductionist approach of splitting an MNE group into its component parts before evaluating transfer pricing may mean that the benefits of economies of scale, or integration between the parties, is not appropriately allocated between the MNE group.

(d) The application of the arm's length principle also imposes a burden on business, as it may require the MNE to do things that it would otherwise not do (i.e. searching for comparable transactions, documenting transactions in detail, etc).

(e) Arm's length principle involves a lot of cost to the group.

10. a. Satyam ltd is an Indian company engaged in the business of developing and manufacturing industrial components. Its subsidiary Max Inc supplies technical information and offers technical support to Satyam for manufacturing goods, for a consideration of Euro 1,00,000 per year.
Income of Satyam ltd is ₹ 90 lakh. Determine the taxable income of Satyam ltd if Max charges Euro 1,30,000 per year to other entities in India. What will be the answer if Max charges Euro 60,000 per year to other entities. (Rate per Euro may be taken as ₹ 55).

6 Marks

10. b. List down the methods for determining Arm's Length Pricing. **6 Marks**

Answer:10.a

Computation of Total Income of Satyam Ltd.

Particulars	Amount (₹)	Amount (₹)
When Price charged for Comparables Uncontrolled Transaction	100,000	50,000
Price actually paid by Satyam Ltd (€ 100,000 x 55)	5,500,000	5,500,000
Less: Price charged in Rupees (Under ALP) (€ 130000 x 55) (€ 50,000 x 55)	7,150,000	2,750,000
Incremental profit on adopting ALP(A)	(1,650,000)	2,750,000
Total Income before adjusting for difference due to Arm's Length Price	9,000,000	9,000,000
Add: Difference on account of adopting Arm's Length Price (if (A) is positive)	Nil	2,750,000
Total Income of Satyam Ltd.	9,000,000	11,750,000

Note:
U/s 92 (3), taxable Income cannot be reduced on applying ALP. Therefore, difference on account of ALP which reduces the Taxable income is ignored.

Answer:10.b.

As per Section 92C of the Income Tax Act, 1961 the methods for determining Arm's Length price may be enumerated as under:

(a) Comparable Price Method,
(b) Cost Plus Method,
(c) Profit Split Method,
(d) Transitional Net Margin Method,
(e) Such other method as may be prescribed by the Board.